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## NEWS: EUROPE

## GM fires new salvo in row with VW

By Christopher Parkes

GENERAL MOTORS has opened up a new flank in its assault on Volkswagen by raising doubts about legal testimony from Mr Ferdinand Piëch, the VW chairman.

Lawyers representing Adam Opel, GM's German subsidiary, have written to public prosecutors in Hamburg, suggesting they examine "discrepancies" between evidence in a civil case in Hamburg on July 15.

The letter is the most explicit attempt yet by Opel to involve Mr Piëch directly in the GM/VW industrial espionage case.

At the July 15 hearing written and verbal testimony from GM employees clashed with affidavits from Mr José Ignacio López de Arriortúa, VW's production director, and two of his colleagues. Other evidence, produced by lawyers for Der Spiegel news magazine, which was fighting a VW attempt to prevent it effectively from reporting on the VW/GM industrial espionage case, contradicted a statement from Mr Piëch.

The VW chairman said in an affidavit that Mr López de Arriortúa did not decide to leave GM for VW until March 9. However, the magazine's lawyers produced an affidavit from Mr López de Arriortúa, dated March 9, in which he said he had decided to leave GM for VW on March 9. The affidavit also stated that Mr López de Arriortúa had decided to leave GM for VW on March 9.

Other clashes of testimony concerned a wad of documents allegedly handed to Mr López shortly before he was due to leave GM, missing photographs of a new Opel car, and details of a secret diesel engine.

The court later ruled mainly in favour of Der Spiegel, allowing it to continue its reporting of "admissible suspicions", and obliged VW to pay the lion's share of the costs.

Volkswagen said yesterday that it stood by all the statements presented at the hearing. "These are affidavits, and therefore true," Mr Lutz Schilling, chief spokesman said.

In a further development yesterday, Mr Jens Neumann, a VW director, stated that at no time had he asked for or been given any GM secret documents. He was replying to revelations at the weekend of contacts between himself and Mr López in early February, around the time when Mr López was given more details of GM group plans.

Mr Neumann, whose responsibilities by that time had been expanded to include group management development, as well as corporate strategy and organisation, said he met and spoke to Mr López for the first time on January 15. He discussed VW's proposed terms of employment on several occasions between February 4 and when Mr López finally signed the contract on March 9.

## Rome tries to contain road chaos

By Haig Simonian in Milan

THE Italian government yesterday tried to minimise the impact of the first day of a two-week strike by thousands of independent road hauliers as queues built up at petrol stations and some stores claimed supplies of fresh food and vegetables were running low.

Mr Michele Sellitti, a junior transport minister, underlined the rights of non-striking drivers to continue working and warned the government might intervene to guarantee supplies if talks with the striking Unatras union failed.

"It is unthinkable in a modern law-abiding state to leave big cities without supplies of food or fuel for a fortnight," he said.

Mr Raffaele Costa, the transport minister, expressed optimism about the outcome of talks which were continuing last night between the government and hauliers.

He indicated the government might be prepared to grant concessions on the price of diesel fuel.

The Unatras union has demanded tax breaks worth some L250bn (\$156m) this year and an increase of almost 20 per cent in state-controlled tariffs. The union groups more than 100,000 small and medium-sized haulage companies, but two other confederations in the sector have ignored the strike call.

The signs of flexibility on the part of the government contrasted with a clear determination by ministers not to let the striking hauliers gain the upper hand.

Government officials took pains to point out that many petrol stations would continue to be supplied normally, as many big oil companies had their own tanker fleets. Some fuel tankers were escorted by police yesterday.

Officials from non-striking transport unions noted that Unatras drivers represented only about 30 per cent of Italy's road hauliers.

Up to 60 per cent of petrol is distributed by either non-striking unions or by the oil companies' own fleets, according to one estimate.

However, panic buying by motorists or the possibility of blockades of fuel depots by striking hauliers means there is still a risk of some petrol stations running dry.

The government and non-striking hauliers are also concerned that striking drivers might obstruct highways and frontier crossings if they believe the strike is not having enough effect.

Newspapers at the weekend painted an alarming picture of the effects the strike could have as Italy approaches its peak August holiday season. They warned of empty shops and dry petrol pumps and said millions could have their vacations ruined.

## Schering's MS drug approved for use in US

By Paul Abrahams

THE FIRST effective treatment for multiple sclerosis (MS) has been approved for use in the US, the world's largest market, by the Food and Drug Administration.

The approval is the first anywhere in the world for the drug, called Betaseron, which was developed by Schering, the German biotechnology group. It is the first to treat the underlying disease. Existing therapies only reduce the symptoms of illness, not its progression.

Betaseron will cost between \$5,000 and \$7,000 per patient per year. Schering estimates treatment of multiple sclerosis can currently cost up to \$20,000 a year. The German group is predicting annual sales of up to DM750m by the end of the decade.

The approval was given on the basis of a trial of more than 300 multiple sclerosis patients. It showed that Betaseron can double the time between attacks as well as lessening their severity. Side effects include fevers and flu-like symptoms.

The drug has proved difficult to manufacture in commercial quantities and will be made in the US by Chiron Corp, a Californian-based company which will receive 15 per cent of sales. Chiron's shares rose 32% to \$67 by mid-session.

Schering is building a European production facility and plans to start clinical trials there shortly.

The disease affects as many as 350,000 people in the US, of whom between 125,000 and 150,000 suffer from this form of multiple sclerosis. In Europe there are about 3m multiple sclerosis sufferers. About 65 per cent of patients are women.

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Yeltsin lets in a rouble own-goal  
John Lloyd on the bewildering politics of a central bank move

WHEN senior ministers of the Russian government were summoned to a meeting in the cabinet of ministers building in Moscow on Friday night, they had been given no warning of what they were to be told.

Mr Viktor Chernomyrdin, the prime minister, told them the central bank had decided to announce the next day that:

● All pre-1993 notes in circulation would cease to be honoured from the following Monday.

● Russians had two weeks in which they could change up to Rhs35,000 of old for new money (foreigners one day);

● And arrangements would be made for those former Soviet republics still in the rouble zone - 10 out of 15 - to exchange their old notes.

There was little discussion: according to one account of the meeting, the decision had already been taken and Mr Chernomyrdin, with Mr Viktor Geraschenko, the central bank chairman, used the meeting simply to inform the ministers, not to ask their opinion.

No representative of the finance ministry attended the meeting: Mr Boris Fyodorov, the deputy prime minister in charge of finance, was in Washington and Mr Sergei Dubinin, his first deputy, had just gone on holiday.

Mr Andrei Vavilov, the ranking deputy minister, was told of the move after the meeting by Mr Anatoly Chubais,

the deputy prime minister in charge of privatisation - the only minister present to raise objections.

The decision was published on Saturday morning and immediately led to queues at the shops and the currency exchange offices as people tried to exchange pre-1993 notes for goods and hard currency. By Sunday, the old notes were being exchanged for about Rhs2,000 to the dollar.

As the citizens queued again at those shops that were open on Sunday morning, the president had cut short a two-week break in the Russian countryside to return to Moscow - where a series of decisions by the parliament over the privatisation programme, control of the budget and the position of foreign banks.

Among his first visitors were Mr Sergei Filatov, his chief of staff, and Mr Vavilov: they begged him to sign an order rescinding the decision of the central bank and firing Mr Geraschenko. They met several times: at the last meeting, they were sure he would sign such a decree.

Mr Fyodorov gave an interview from Washington to the Moscow Radio Mayak, denouncing the move as "a provocation aimed at the prestige of the state, the president and the government" - even though he must by then have known that the prime minister had approved the move.

He was not alone. Mr Ruslan Khasbulatov, the Russian parliamentary speaker and an increasingly bitter foe of the president, went on television also to demand that the bank rescind, and threatened to fire "senior officials" if it refused. Mr Khasbulatov, under the existing constitution, has the power to see that this was done: the central bank is responsible to parliament, not to the government or the president.

Others crowded on to the bandwagon. The leadership of the hardline National Salvation Front saw the move as one made by the "anti-popular" forces in the cabinet to "establish a colonial regime (controlled) by pro-western puppets".

The Civic Union, which prefers to be known as centrist, also blamed the government, in particular the reformers within it - just the people who were yesterday striving to get the decision reversed.

As far as can be determined, it was the central bank's leadership and the centrists in the government, led by the prime minister, who took the decision. The reformists were against it more because of method than aim: for one thing, to make it clear that the currency is Russian gives the other republics notice that they must abide by central bank discipline, long an aim of the reformers.

But, as Mr Fyodorov said, the

announcement was reminiscent of a command economy rather than what might be expected of a reforming government.

Mr Yeltsin called an emergency meeting of his security council yesterday afternoon - after which he issued a decree aimed at "protecting the rights and legitimate interests of the citizens", lifting the ceiling of money to be changed to Rhs100,000 and extending the deadline for changing roubles until the end of August. He also decreed that Rhs10,000 notes could be exchanged freely, even if they bore the 1992 date.

Mr Yeltsin's role has dismayed western economists. Professor Stanley Fisher, the former chief economist for the World Bank, said: "Yeltsin has softened the original move but it's still a very bad idea. It shouldn't have been done. It's not terrible to create a new currency but it is terrible to confiscate roubles from those who work in the free part of the economy."

Mr Fyodorov, whose public statements have been vitriolic, returns from Washington today and must decide whether to submit to the president's compromise or to oppose it, possibly to the extent of resigning his post as minister responsible for the country's finances.

It will be a hard choice, for it will be in the face of evidence that the government's anti-inflationary policy was beginning to show some results.



President Mitterrand and prime ministers Major and Balladur after yesterday's summit in London

## Kazakhs to receive \$86m IMF credit

THE International Monetary Fund has approved a \$86m credit for Kazakhstan from its systemic transformation facility, a new loan fund designed to help countries from eastern Europe and the former Soviet Union make the leap to a market economy, writes George Graham in Washington.

It said Kazakhstan had succeeded in restraining the size of its budget deficit by improving tax collection, cutting spending and reducing subsidies, with a deficit target of 6 per cent of gross domestic product this year.

The Kazakh economic programme aims for a sharp reduction in inflation by the end of the year, together with an acceleration of structural reforms and a strengthening of the country's official reserves.

## UN plea over Cyprus clash

The UN yesterday urged restraint in Cyprus and said 13 of its troops had been injured last week when hundreds of Greek-Cypriot nationalists tried to cross into the Turkish zone, Agencies report.

On Sunday, up to 1,000 motorcyclists protesting against the 19-year division of Cyprus barged past Greek-Cypriot police and UN troops into the buffer zone, provoking fights and stone-throwing with Turkish troops.

## Kurd rebels set kidnap terms

Kurdish rebels said yesterday they would release six kidnapped foreign tourists if Turkey stopped military operations against them in the southeast. Reuters reports. The Düsseldorf-based Kurd-Ha news agency, which is close to the Kurdistan Workers Party (PKK), quoted guerrilla sources as saying the four Frenchmen, a Briton and an Australian were their "guests" and were not being ill-treated.

It said the rebels had also seized a Turkish policeman and a soldier from another vehicle on the same road. The PKK abducted two other tourists from the Tatvan area on July 4.

## EC agrees to links by steelmakers

By Lionel Barber in Brussels

THE European Commission, yesterday gave the go-ahead for Usinor Sidor, the world's second largest steelmaker, and Arbed, the Luxembourg steel producer, to rationalise their businesses.

The merger and swap of activities is the latest deal between Arbed and Usinor of France to have received Commission blessing. The aim is to restructure the depressed European steel market.

The announcement comes two days before the Commission debates scaled-back plans for Brussels to vet more cross-border takeovers.

Under the Usinor-Arbed agreement, Arbed will specialise in the production and marketing of sheet piling and beams now carried out by both companies. Usinor will take over Arbed's wire rod and rails business, except rails for travelling cranes.

## Warsaw 'ready to revive talks with creditors'

By Christopher Bobinski in Warsaw and Anthony Robinson in London

THE Polish finance minister, Mr Jerzy Ossiatynski, yesterday proclaimed Warsaw's willingness to resume debt reduction negotiations with its commercial bank creditors but "only if we are certain that the banks are ready to conduct constructive talks in good faith."

The first round of talks to reduce and reschedule Poland's \$12.3bn (£8.2bn) debt to the London Club of commercial bank creditors collapsed last week after the Poles rejected the Club's starting offer.

Mr Ossiatynski emphasised that "Poland needs an agreement with the banks but not at any price, not at the price of undermining the present reforms and agreements with other partners". This was a reference to Poland's 1991 agreement with the Paris Club which reduced the \$35bn owed to western governments by 50 per cent.

Poland is looking for a similar reduction in its commercial bank debt burden. But Mr Ossiatynski said the proposal presented by the banks last week represented "a 28 per cent reduction, which, after subtracting the \$2.5bn up-front payment that implementation of the agreement would cost, signifies an 8 per cent net reduction."

The assessment was contested by a spokesman for the London Club last night, who said that Poland, which the club classifies as a "middle income, European country", was offered a 33 per cent reduction, closely aligned to the standard Brady-type debt reduction which is usually offered to developing country debtors. He emphasised that the banks presented the offer as a "starting point for negotiations" and added: "We also want to sit down and continue negotiations with Poland."

The 10-man London Club negotiating team represents over 400 creditor banks, including the heavily committed German and other European banks which are anxious not to create a precedent for generous debt reduction which could be seized upon by Russia, Bulgaria and other big debtors. But the banks recognise that the political hiatus before the Polish general elections on September 15 offers a "window of opportunity" for an agreement.

The Polish negotiators, meanwhile, are restrained by tight, IMF-imposed budgetary restraints and heavy existing repayment commitments to the Paris Club and other creditors. Warsaw has obtained pledges worth \$1.3bn from the World Bank and other international institutions to finance a London Club deal and is ready to devote \$400m a year to servicing its commercial bank debt.

According to Mr Ossiatynski, the London Club's proposal would initially mean annual payments of \$600m increasing swiftly to \$1bn a year.

## Turkey reviews its spheres of influence

Ankara is raising its profile in regional and Middle East affairs, writes John Murray Brown

WHEN a senior US strategist allots Turkey a prominent role in American Middle East policy a few raised eyebrows should be expected in Ankara.

Surprising then that there was so little Turkish press comment after such an assessment by Mr Martin Indyk, a key adviser to the Clinton Administration; a measure perhaps of how Turkish opinion has absorbed the changes wrought by the Gulf War.

Turkey is tentatively assuming a higher profile across a broad range of policies, from the Arab-Israeli dispute, to the region's water problems and the unresolved issue of Iraq and the Kurdish question.

Underlining the point, Mr Hikmet Cetin this week becomes the first Turkish foreign minister to visit Israel since it was founded in 1948. Part of Ankara's apparent willingness to assume a

greater regional role is no doubt tactical and comes from a realisation that its application to membership of the European Community is stalled and its future in European security structures unclear.

But the strategic arguments for rethinking policy are also compelling. In the wake of the Gulf War, Turkish officials have come to accept that even a threat to the security of a distant Gulf state has a direct impact on Turkey. This perception is the main reason for the \$4bn Turkish Defence Fund, set up in the wake of the conflict with Baghdad to boost Turkish defence capability.

The turning point was the late President Turgut Ozal's decision, taken against domes-

tic opposition, to allow the US to use Turkey's bases in the war with Iraq. If there is now to be a regional solution in the wake of any Arab-Israeli peace settlement, Turkey will have an important role, controlling as it does two of the region's main rivers the Euphrates and the Tigris.

Certainly a few years ago it would have been unthinkable for an Arab minister to suggest that Turkey had a role in the Middle East peace process. It would have been equally unthinkable for a Turkish minister to welcome such an idea.

But Arab governments have been acknowledging Turkey's weight in the region - as did Mr Talal Al-Hassan, Jordan's minister of state for foreign

affairs, when Mr Cetin arrived in Amman, on the first stop of his five-day regional shuttle.

More broadly, Turkey offers itself as a model of moderation, an economic and military power which is Moslem and secular, and a long time ally of the US. The US for its part has helped nurture a thaw in Turkey's relations with the Syrians, although ties remain fraught.

Conversely while US relations with Iran remain frozen, Turkey provides an informal conduit for US interests particularly on the commercial side, where Turkish subsidiaries of US companies are doing lively trade with Tehran.

But considerable difficulties remain, not least the Turkish

perception that its immediate neighbours are helping form Turkey's own Kurdish problem through support for the Kurdistan Workers Party, the PKK. At its crudest, Turkish diplomacy towards the Arabs has been a form of damage control.

Recent efforts to win Syrian assurances on curbing PKK activities have come to nothing. The breakdown of a short-lived ceasefire in May is in part attributed to Syrian disapproval at the failure to make progress on talks towards a final allocation of the waters of the Euphrates.

Many Turks still disapprove of moves to strengthen links with Moslem neighbours and there is some anxiety that Turkey's increased involvement in the Middle East could divert its energies from achieving its overriding goal - to be part of Europe.

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## NEWS: INTERNATIONAL

# US urges Asia to help curb N-arms

By Victor Mallet in Singapore

THE US secretary of state, Mr Warren Christopher, yesterday urged Asian countries to help curb the spread of nuclear weapons and warned them that the growing sophistication of their economies meant Asia could become an important source of equipment for missiles and for chemical and biological weapons.

"This is a growing problem for Asia because economic and technological development means the region can now produce chemicals, sophisticated electronics and other products and services that the proliferators want, but are now denied in Europe and the US," he said.

"Asia is at the stage when its participation in international agreements and establishment of export control regimes are most important."

He was addressing the annual meeting between the six foreign ministers of the Association of South East Nations (Asean) and their "dialogue partners" from the EC, the US, Japan, South Korea, Australia, New Zealand and Canada. Asean comprises Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

The main weapons proliferation problems raised at the talks in Singapore concern North Korea, which is suspected of having a nuclear weapons programme in breach of its obligations under the nuclear non-proliferation treaty (NPT), and China, which is accused by the US of exporting parts for medium-range M-11 missiles to Pakistan.

Western countries, however, are also worried that Asian companies are starting to supply lethal equipment and technology outside Asia.

In March a shipment of eight steel reactor vessels which could have been used for making nerve gas or mustard gas were seized in Singapore on their way to Libya under a UN arms embargo against Tripoli. They were made in Malaysia. Libya said the vessels were for making lubricated mud used in oil drilling.

Several other foreign ministers joined Mr Christopher yesterday in emphasising the importance of non-proliferation of weapons of mass destruction, after the first informal gathering on Sunday of a new, 18-member Asia-Pacific forum to discuss security issues.

Western ministers defended their interpretation of human

rights and democracy in the face of criticism from Asean leaders, and called for the release of Ms Aung San Suu Kyi, the detained Burmese opposition leader.

"Some have argued that democracy is somehow unsuitable for Asia and that our emphasis on human rights is a mask for western cultural imperialism," Mr Christopher said. "They could not be more wrong. In fact, democracy has been strengthened over the last decade around Asia. In Taiwan and Korea, in the Philippines and Thailand, in Mongolia and elsewhere. The yearnings for more freedom are not a western export; they are a human instinct."

The meeting also moved closer to calling a special meeting to review the conflict in Cambodia after United Nations peacekeepers leave next month, Reuter adds.

"Involvement in the post-UNTAC (United Nations Transitional Authority in Cambodia) political framework would help prevent the unravelling of the election achievements and develop a constituency of opinion on the need for the international community to help provide stability in post-election Cambodia," Asean said.



Israeli soldiers cover their ears as a tank fires towards Hizbollah positions from the security zone in South Lebanon yesterday. The bombardment followed rocket attacks against Israeli troops by Hizbollah and its Palestinian allies.

## Nigerian rivals to discuss handover by military

NIGERIA'S Social Democratic party (SDP) is considering further talks in Abuja today with its rival, the National Republican Convention (NRC), and the National Electoral Commission (NEC) as civilian politicians search for a peaceful end to the eight-year military rule of President Ibrahim Babangida, writes Paul Adams in Lagos.

The presence of both parties at the meeting could revive plans for an interim civilian government, which Gen Babangida proposed early this month, then rejected after both parties had agreed to take part.

The SDP stands by the claim to victory by its candidate, Mr Moshood Abiola, in the June presidential elections, which the government annulled, and rejects Gen Babangida's proposal for new polls before the scheduled handover of power on August 27.

Although the party's national executive plans to attend the tripartite meeting merely to state its opposition to fresh polls, it has a powerful fringe group, many of them former governors and presidential candidates, who are sceptical about the validity of direct talks.

The positions of all the factions in Nigeria's political deadlock have appeared so intractable in the past week that the government has prevailed on groups of traditional chiefs to counsel moderation.

## Kuwait set to make \$1bn claim

Kuwait is preparing a \$1bn claim against Baghdad for cleaning up the oil well fires that swept the country at the end of the 1991 Gulf War, Reuter reports from Geneva.

Mr Abdulrahman al-Houty, chairman of the Kuwait government body assessing damage caused by Iraq's seven-month occupation of the emirate, said the claim would be presented to a special United Nations body in the next few days. "This will be the first of the big claims against Iraq. It has symbolic importance for us, and we believe it should be given priority attention," Mr al-Houty added.

The Geneva-based Compensation Commission has been meeting regularly since the summer of 1991 and officials say it has already received some 700,000 claims with an expected 500,000 more in the pipeline from individuals, firms and states.

The total value of all claims is expected to be between \$100bn and \$200bn, according to experts at the Commission. Mr al-Houty was speaking in an interview before a three-day meeting of the governing council of the Compensation Commission.

## BJP chief prepares for Hindu India

Advani is determined to broaden the party base, according to Shiraz Sidhva

AFTER years of being a party of upper caste Hindus and small traders, the Hindu right-wing Bharatiya Janata Party (BJP) has decided that it must broaden its base if it is to achieve its goal of wresting power in New Delhi.

Mr Lal Krishna Advani, the soft-spoken 65-year-old head of the BJP has been assuring Muslims they will be safe in a Hindu India, and more secure than they have been in a secular country with Mr Narasimha Rao's Congress (I) government at the helm.

Already, the BJP's committees are nominating members of the less privileged classes, something hitherto unheard of in the elitist Hindu party. Mr Advani is also doing all he can to get away from the party's Muslim-bashing image.

Recently re-elected BJP president, the frail man who would be prime minister, refuses to accept blame for the country-wide murders of nearly 2,000 people after his party encouraged the destruction of a mosque at Ayodhya last December. Nine months after India's most traumatic event since partition, the BJP is much stronger than when Ayodhya was its single issue.

Mr Advani has never been apologetic about his party's decision to support the destruction of the mosque, which

THE Indian government faced its third no-confidence motion in 25 months yesterday, writes Shiraz Sidhva.

It was sponsored by the Communist Party of India (Marxist), with the support of the Bharatiya Janata party (BJP), the National Front and the Left Front.

A day of acrimonious debate followed the motion, with the Congress (I) staunchly defending Mr Narasimha Rao, the prime minister, in the face of allegations that he had accepted a Rs10m (£214,000) pay-off from Mr Harshad Mehta, the main accused in the Bombay financial scandal.

Senior parliamentarians such as Mr Jaswant Singh of the BJP and Mr George Fernandes of the Janata Dal launched a blistering attack on the government for its policies of "drift, lack

of leadership, corruption, and economic mismanagement". Socialist parties and the right-wing BJP, which has become the largest opposition group in India by capitalising on Hindu nationalism and fundamentalism, appeared to want to drive Mr Rao out of power for different reasons.

Legislators will debate for two days and Mr Rao will be allowed to defend himself tomorrow before the vote.

Mr Fernandes spoke at length to the House about how Congress (I) had "sold out" to large multinationals such as the US company, Cargill, whose proposed salt project near Kandla port in Gujarat would lead to 25,000 people losing their jobs and pose a security threat. He also accused the government of covering up the Bofors gun scandal, six years after it broke.

House in 1994 to 118 in 1991, knows that Ayodhya can bring the party no further political gain, and that there is a need to widen its party's agenda.

"We have always had a comprehensive approach to the nation's problems," insists Mr Advani. "It so happened that the principal issue agitating people's minds was Ayodhya in 1991," he said last week. "Any party who aspires to govern as pluralistic a country as India, cannot afford to concentrate on one issue."

Besides, claims Advani, building a new temple on the site of the mosque has become "the nation's cause", with even the Congress (I) jumping on the bandwagon and sponsoring

a religious ceremony there. But he will staunchly oppose the introduction of a bill this week which seeks to detach religion from politics.

However, secular-minded Indians are aware that if the BJP came to power it could change the face of Indian democracy. The bloodbath after Ayodhya is fresh in the minds of minorities who know that not all Advani supporters are as reasonable as he is.

Corruption in high places is the BJP's newest mantra. With Mr Rao's credibility in question after accusations of involvement in the Bombay financial scandal, Mr Advani has been projecting himself as a credible alternative.

Much of Mr Advani's confidence stems from the fact that the BJP is sure of winning the polls in the four states where its governments were dismissed after the Ayodhya-related violence.

These include Uttar Pradesh, India's most populous state and Madhya Pradesh, India's largest state, Rajasthan and Himachal Pradesh. Already, the party, aided by the disciplined cadres of the Rashtriya Swayam Seva Sangh (RSS), the parent Hindu organisation, is campaigning in the four states, where elections are due in October.

The party plans to form a "shadow cabinet" during the monsoon session of parliament to expose the government's "failures" in key areas such as home and foreign affairs, defence, education and health.

The BJP will also intensify its campaign criticising Congress (I) handling of the Kashmir insurgency.

The party has periodically jettisoned its right-wing policies to criticise the government's economic reforms programme. Mr Advani insists that there are no contradictions in the party's economic platform. "We are all for liberalisation," he says. "But internal liberalisation must precede globalisation, and be carried out in phases."

## Strike action at Hyundai group starts to collapse

By John Burton in Seoul

THE INDUSTRIAL action at Hyundai, South Korea's largest conglomerate, appeared to be collapsing yesterday as two of eight striking companies concluded wage agreements. A third one is expected to do so today.

Tension eased as the bulk of the riot police deployed around the many Hyundai factories in the southeast city of Ulsan were pulled out, witnesses said.

Five Hyundai subsidiaries remain embroiled in labour unrest. Workers are pressing for better wages and working conditions.

The strike at Hyundai Motor, the largest of the Hyundai subsidiaries disrupted by industrial action since last month, ended last week.

Workers at Hyundai Pipe and Hyundai Precision & Industry agreed to accept the company's 4.7 per cent pay offer in return for increased fringe benefits. Hyundai Mipo Dockyard is expected to reach a similar accord today.

The Labour Ministry is concentrating its efforts on ending the dispute at Hyundai Heavy Industries (HHI), the group's

shipbuilding unit and the largest subsidiary still on strike.

But HHI workers are insisting on the reinstatement of fired trade union members, which the government refuses to accept as part of a wage agreement. Officials are threatening to invoke emergency powers to end the strike as they did with Hyundai Motor.

The South Korean government has berated Hyundai management for its poor industrial relations and vowed to take as yet unspecified action against the company when the unrest finally ends.

A Boeing 737 of Asiana Airline yesterday crashed into a mountain near Mokpo, South Korea, as it tried to land during a severe storm. About 65 of the 108 passengers on the flight from Seoul were killed.

It was the first crash suffered by Asiana since South Korea's second carrier was established in 1989.

The aircraft had made three unsuccessful approaches to land at Mokpo and was trying again when it hit the mountain due to low visibility.

The aircraft was insured for \$30m, with Lloyd's holding 99.34 per cent of the insurance.

## Discount cosmetics draw makers' fire

By Emiko Terazono in Tokyo

SHISEIDO, Japan's leading cosmetic maker, has clamped down on a Tokyo-based discount retailer, by cancelling shipments from its distribution subsidiaries. Shiseido said Kawachiya, a successful drinks discount chain which has also started to sell cosmetics, was wholesaling rather than retailing cosmetics.

However, Kawachiya is planning to file a complaint to the Fair Trade Commission, the country's anti-monopoly watchdog, next week, claiming that Shiseido's actions were intended to stop the discounting of its high-grade cosmetics. Although resale price main-

tenance of cosmetic products was cut to 24 low-priced items last year, the industry has traditionally had a tight grip on retail pricing of its products through its retail network.

Kawachiya, an unlisted company, is one of the first Tokyo-based chain stores selling alcohol at discount prices, in spite of pressure from alcohol companies. After strong drinks sales it set up a chain of cosmetics stores discounting over 5,000 items made by six makers including Shiseido, Kao and Kanebo.

By selling at 25 to 30 per cent cheaper than other retailers, Kawachiya's cosmetics sales have jumped ten-fold, hitting other cosmetics retailers.

## Department store sales suffer record fall

By Robert Thomson in Tokyo

SALES at Japanese department stores were 8.9 per cent lower last month than a year earlier, highlighting the continuing decline in personal consumption and increased competition from discount houses.

The fall was the largest on record, the Japan Department Store Association said, and was partly caused by unfavourable weather. Japan's unusually cool June, brought an 8.5 per cent decrease in clothing sales, which account for just under half of all sales.

Apart from waning consumer confidence because of lower bonus payments and overtime cuts, department stores have been losing customers to discount clothing and electrical goods houses. The association said companies had also cut their spending on mid-year gifts for clients.

Sales of personal items slipped 4.8 per cent, household goods were down 12.6 per cent, and foods by 5.7 per cent. Tokyo department store sales fell 13.4 per cent, while sales in regional areas contracted 6.6 per cent.

The decline in personal consumption has prompted debate among Japanese business leaders on the need for a cut in income tax or official interest rates to stimulate demand. Finance Ministry officials are opposed to a tax cut because the government is already having difficulty balancing the budget.

## LDP flounders without its godfather

Robert Thomson on an unseemly contest without Kanemaru's guidance

JAPAN'S Liberal Democratic party, facing the new experience of life in opposition, is feeling the loss of Shin Kanemaru, the fallen godfather, who held together bickering factions, coerced and coaxed opposition parties, and generally created order from the chaos of Japanese politics.

Needed in the backroom, Mr Kanemaru was instead in a courtroom, defending himself against tax evasion charges and taking the rap for a corrupt political system. Had he been moving through the better bars of Tokyo's political district, the godfather would have calmed the fractious factions and prepared the LDP for a difficult week.

In the next few days, the LDP must find a successor to Mr Kiichi Miyazawa, the party president, but the greatest loss for the old order lies in its inability to replace Mr Kanemaru. His resignation led to a split in the party's largest faction, which he controlled, then to a split in the LDP and, now, to the prospect of the party losing power.

If seven opposition parties can put their many differences aside, they will be able to appoint the next prime minister and that will mean opposition for the LDP, which has ruled since 1955. The seven are still negotiating over policies and candidates. Members of the Social Democratic party, formerly the Japan Socialist party, were undecided yesterday, while another pro-reform party was having second thoughts.

The selection of Mr Miyazawa as prime minister two years ago was simpler. Mr Kanemaru appointed him after



Michio Watanabe, a likely candidate for the leadership, arrives at his faction's office yesterday

having removed his blessing from Mr Toshiki Kaifu. For the past decade, Mr Kanemaru oversaw the queue for the leadership and cultivated the SDP, the largest opposition group, to ensure that controversial legislation would eventually be passed by parliament after a ritual show of outrage.

Without the guidance of the godfather, the LDP's leadership race has become an unseemly rush. Two ailing elders, Mr Masaharu Gotoda, the justice minister, and Mr Michio Watanabe, the former foreign minister, are potential successors. Mr Hiroshi Mitsuoka, who heads the largest LDP faction, Mr Ryutaro Hashimoto, ex-fi-

nance minister, and Mr Kaifu are keen to take the job.

Most of these candidates are unacceptable to younger LDP members, let alone to the coalition partner that the LDP must attract to ensure that it has the numbers next Monday when parliament is expected to vote in a new prime minister.

At the July 18 election, the LDP won 233 of 511 seats, while the proposed coalition of seven parties took 243 seats, independents aside.

In response to the unappetising array of LDP candidates, Mr Seichi Ota, a 47-year-old LDP member, yesterday announced he would stand at a selection meeting on Friday or

Saturday. His candidacy is way out of order in the LDP's strict hierarchical system, as Mr Ota has been re-elected only four times, compared with the nine times of Mr Miyazawa and the 10 times of Mr Watanabe.

Mr Ota is typical of the pro-reform members who insulted their seniors late last week when party executives were called "war criminals" for having failed to win a majority in the election and allowed the faction of Mr Hata, to become the Japan Renewal party. The remarkable conflict has been replayed many times on Japanese television.

These younger members are crossing factional lines and are

not prepared to wait patiently behind an executive which has not recognised that the party is on the brink of falling from office and lacks an organiser of Mr Kanemaru's calibre.

The aspiring successor to Mr Kanemaru is Seikuro Kajiyama, a gruff, hustling politician who seems unable to win friends and influence people. Three years ago when he was justice minister, Mr Kajiyama toured a Tokyo red-light district three years ago, delivering unscripted jibes which were taken as insults by Asian women and Americans.

On election night, Mr Kajiyama, 67, the LDP secretary-general, plotted the demise of Mr Miyazawa on national television, unaware that his conversation was broadcast by microphones in front of him. He was confiding conspiratorially to Mr Koko Sato, 64, the LDP general council chairman, implicated in the Lockheed bribery scandal of the 1970s.

These two share party power with a third executive, Mr Hiroshi Mitsuoka, chairman of the policy research council. Mr Mitsuoka's confidence has grown with the break-up of Mr Kanemaru's faction, which, through weight of numbers, was the LDP's anchor and gave the godfather his influence.

There are now four LDP factions of relatively equal strength, all wanting an inordinate share of power, and unable to concentrate on the crucial *nenawashi* (literally, digging around the roots of a tree, the groundwork for a campaign). Mr Kanemaru may be a symbol of all that is wrong with Japanese politics, but his shovel skills are unmatched.

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Christina Lamb reports on a multiple murder among the street children of Brazil

## Poverty the angel of death in Rio

TWO pairs of torn canvas slippers with no laces and a grubby, blood-stained blanket were all that remained yesterday of seven Rio de Janeiro street children alleged to have been murdered by policemen.

The boys - aged between 12 and 17, and a youth of 22 - were killed on Friday morning while sleeping at the door of the Candelária church in the heart of Rio. The spot has been marked by a makeshift shrine and a primitive wooden cross.

Late on Sunday night, three policemen were taken into custody after being identified as the gunmen by Wagner dos Santos, a 22-year-old veteran of the streets of Rio and one of the survivors of the massacre. "I will never forget that night even if I live 100 years - they must pay for what they did," he said yesterday as he recovered from two bullet wounds. Another child is still in a critical condition.

But few expect real action to be taken to improve the lot of the thousands of children living on the streets of Brazil's big cities. In 1990, the London-based human rights organisation Amnesty International ran a series of advertisements: "Brazil has found a new way of taking its children off the streets - killing them."

Despite such pressure, the trouble has worsened since then. According to police records, in the first six months of this year 320 children were murdered in Rio - more than in the whole of 1991 - and aid agencies estimate that between two and four children are being killed in the city by death squads every night.

The problem is that the very people responsible for preventing crime are involved. Mr

**'Rarely does an extermination gang not contain a policeman'**

Paulo Melo, a former street child who is now a state assemblyman, says: "Rarely does an extermination gang not contain a policeman. Everyone knows who the murderers are and where to find them, but people are scared to give evidence."

He points out that a federal congressional commission in 1991 named policemen involved but no action was taken.

More chilling still is the fact that there is considerable sup-

port for the killings in a society which has become one of the most violent in the world.

Forced into the streets by poverty, the children, who are usually black, survive through petty crime, often becoming involved in drugs and prostitution.

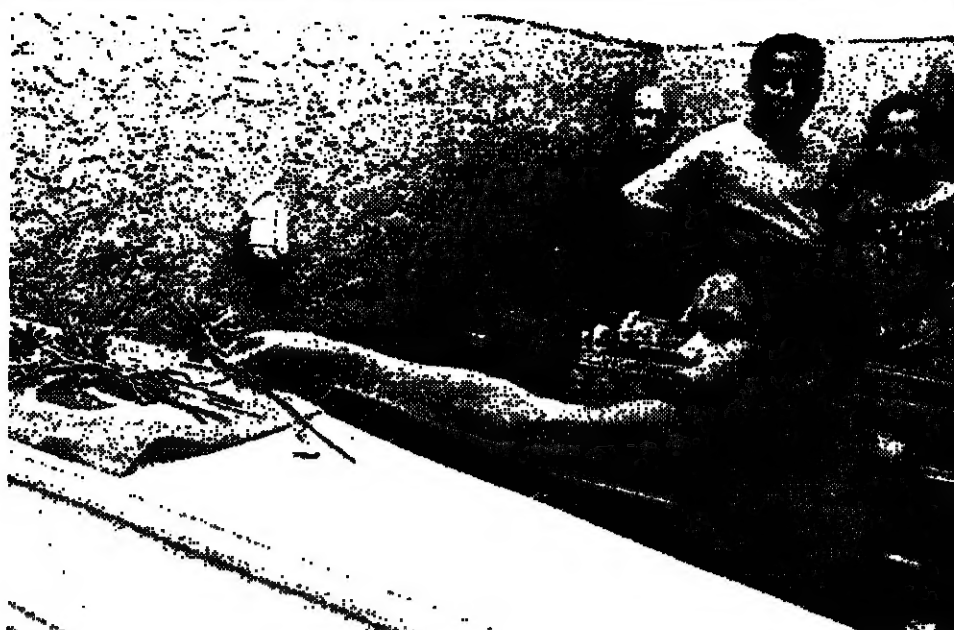
Many local people call them "animals" and see their deaths as "cleansing". Shopkeepers and hoteliers are believed to fund this "cleansing".

After the latest massacre, the overwhelming majority of people calling a phone-in on CBN national radio in Brazil approved of the killings and, at the shrine yesterday, a man who identified himself only as Jorge, said: "These children have been sent where they belong. We should kill them all".

Poverty is at the root of the problem. According to the government, 43m Brazilians, including 18m children, live in absolute poverty with a monthly family wage the equivalent of less than \$15.

The trouble has been compounded by the national economic stagnation of the last 13 years and the movement since 1960 of more than 40m people from the countryside to the cities, which are now appallingly overcrowded.

This is particularly clear in



A homeless boy in Rio de Janeiro places a flower on the coffin of one of the seven youngsters killed

Rio, where a third of the population lives in slums and, at night, small bundles that are children can be seen in shop and church doorways, traffic tunnels and on the roadsides.

Iron bars have been erected around public parks in the smart district of Ipanema to prevent the children entering.

Mr Ronofri Cabral, a worker from Petrobras, the state oil company, who had brought his 12-year-old son to the shrine, said: "This all comes down to the failure of the state to provide a decent wage. What we should ask is why children, many of whom have families, are living in the streets with-

out food, clothing or shelter." The work of those fighting to defend street children is hindered by controversy over how many there are, with estimates ranging as high as 7m for all Brazil.

Mr Liboral Siqueira, a juvenile court magistrate in Rio, attacked yesterday what he calls the *indústria da criança* (child industry).

He explains: "There are little more than 600 children living in the streets of Rio and 302 institutions claiming to be helping them. That's crazy. These groups have no interest in taking children off the streets while they can get dol-

lars from overseas agencies for supposedly helping them."

Amid rising international pressure Brazil's President Itamar Franco, who has been in Rio since Saturday to monitor investigations, yesterday directed the foreign ministry to assure governments, particularly in Europe where the EC has expressed its concern, that all possible action is being taken.

He blamed the developed world: "The poverty and misery that exists here is often caused by the industrialised countries, which place obstacles in the way of our search for science and technology."

## US governors of flood states press for aid

By George Graham in Washington

GOVERNORS from flood-damaged US states arrived in Washington yesterday to try to ensure that Congress does not delay the disaster aid they have been promised.

Delegations from at least six of the eight states most affected by the flooding in the Mississippi and Missouri river basins will hold talks today with Senate and House of Representatives leaders and urge them to set aside the dispute that last week held up a vote on a preliminary flood relief bill to spend \$2.98bn.

The House last week delayed considering the bill after Republicans had been joined by 45 fiscally conservative Democrats, including some from flooded districts, to block debate unless the new money were offset by spending cuts elsewhere.

The House is expected to reconsider the bill today. Democratic leaders have not changed it, but have allowed more time for debate.

Officials from the mid-western governors' offices said they wanted to be on hand to twist arms and ensure that at

least their own state congressional delegations would not block the aid sought. "Presumably they have made their partisan point and will now do the right thing," said one aide.

With another record crest of water expected on the Mississippi this week, the system of earth and concrete levees that has so far averted even worse flooding is rapidly crumbling. Water levels have been well above normal since April, and waterlogged levees which had resisted earlier floodwaves have now begun to give way under this renewed assault.

Several more towns along the Mississippi and Missouri were evacuated yesterday when it became clear their levees were about to break, and drinking water has had to be rationed in towns whose water treatment plants have been inundated.

Although the flood aid bill under immediate consideration is for \$2.98bn, the Clinton administration has already said it will raise its flood aid request to \$5bn, and has acknowledged that even this is unlikely to prove adequate.

Estimates of the damage throughout the affected area now amount to \$10bn-\$12bn.

## Low interest rates bolster home sales

By George Graham

SALES of homes in the US rose again last month, maintaining a solid recovery fuelled by low interest rates.

The National Association of Realtors said sales of existing single family homes rose to an annual rate of 3.68m homes in June, up 1.9 per cent from May and 11.1 per cent higher than in June 1992.

Mr William Chee, the association's president, said the rise reflected low mortgage rates, which have made houses more affordable. He added that sell-

ers were asking for more realistic prices.

Home sales growth was strongest in the north-east, where the number of sales rose 14 per cent in June. Sales in the north-east have risen 20 per cent in the last two months, helping to reverse a decline during cold weather earlier this year.

Sales also climbed in the south, up 2.9 per cent last month, but fell slightly in the west and, more appreciably, in the Midwest. Economists predicted the strong pace would continue in the second half.

## Colombian president seeks UK investment

By Sarita Kendall in Bogotá

ONE of the main purposes of Colombian President César Gaviria's visit to the UK, which began yesterday, is to persuade investors that his country is a land of economic opportunity with an unfortunate image.

He will be shuttling from a Guildhall dinner in the City, from the CBI and the Bank of England, to meetings with Mr John Major, the prime minister, other cabinet

ministers and the press.

The Gaviria government's economic liberalisation programme, begun three years ago, is at a crucial stage. After a relatively easy ride, cracks have begun to appear. These are being papered over but economic experts are questioning whether Colombia was ready for such radical reform.

Industry and agriculture have felt the effects of a big increase in imports over the last 18 months.

Overall, the economy grew by 3.5 per cent in 1992, but

agriculture declined by 0.5 per cent and industry grew by only 0.8 per cent.

Industrialists are protesting at the inflow of cheap textiles, footwear, cigarettes and paper products, and at the inability of the customs service to prevent contraband.

Not everyone is unhappy though - chemical and pharmaceutical companies and vehicle manufacturers are all benefiting from cheaper imports used in their processes. Agriculture is in bad shape,

however: Colombia is one of the few countries to have left its farm sector almost entirely unprotected. Production of grains and vegetable oils has fallen in response to low-priced imports, while export crops such as bananas, coffee and flowers, hit by international marketing problems, are in further trouble because of the gradual revaluation of the peso.

The government has worked hard to bring inflation down to 22 per cent this year and is unwilling to endanger its anti-

inflation policy by accelerating the devaluation rate.

Customs will, however, be looking more carefully at imports - especially expiry dates, dumping, subsidies and smuggled goods.

So far, the reforms have not drawn foreign investors to Colombia as expected. Last year, direct foreign investment limped up to \$308m, excluding the oil sector, which will be attracting much foreign capital over the next few years as the Cusiana oil and gas reserves are developed.



Gaviria: London shuttle

## WHERE TO WATCH THE FT THIS WEEK

### MONDAY

07:45 European Business Today† - Daily news, company results, market moves and boardroom interviews.  
12:30 West of Moscow †  
22:30 European Business Today†

### TUESDAY

07:45 European Business Today† (22:30)  
13:15 West of Moscow\* (18:15)  
08:15 FT Reports\* (15:45, 23:45)

### WEDNESDAY

07:45 European Business Today† (22:30)  
21:30 Financial Times Reports† How to make the most out of your holiday.

All times are CET

KEY • Sky News † Super Channel  
\* Euronews

### THURSDAY

07:45 European Business Today† (22:30)  
08:15 West of Moscow\* (15:45, 23:45)  
13:15 FT Reports\* (18:15)  
20:00 Financial Times Reports • (01:00, 05:15)

### FRIDAY

07:45 European Business Today† (22:30)

### SATURDAY

05:30 Financial Times Reports •  
08:30 Financial Times Reports †  
11:15 West of Moscow • On the trail of the Russian Mafia (22:15, 02:15, 05:15)

### SUNDAY

13:00 Financial Times Reports • (20:00)  
19:00 Financial Times Reports †  
22:30 West of Moscow †

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## NEWS: WORLD TRADE

Talks continue over £250m venture to build jet aircraft

## BaE facing delay in Taiwan deal

By Dennis Engbarth in Taipei and Daniel Green in London

BRITISH Aerospace may have to extend a July 31 deadline for a deal finalising the company's £250m joint venture with Taiwan Aerospace Corporation (TAC).

Mr Denny Ko, TAC's president, acknowledged yesterday the deadline might not be met. "We're still in discussions to see how the two sides can agree and accept," he said.

Mr Chiang Ping-kun, Taiwan's minister of economic affairs, intends to write to Mr John Cahill, BaE's chairman, urging BaE not to insist on the deadline for finalisation of the project.

BaE said it would "review its position" if the deadline were missed. It has a mandate from its board to negotiate until July 31.

Success of the venture is vital to BaE's recovery strategy. The joint venture - Avro International Aerospace - will manufacture BaE's RJ family of regional jet aircraft in both the UK and Taiwan. The Taiwanese site is close to east Asia's fast-growing market and will have lower labour costs.

Late yesterday Mr Chiang

sent an official request to the Taiwan cabinet for official backing for the project. Written confirmation may come today, but further discussion of financing details may delay the deal's final signing.

Mr Yang Shih-chien, Taiwan's deputy minister of economic affairs, said Mr Lien Chan, the premier, "stated his support in principle".

An executive at one of the island's state-run banks said local banks would not feel comfortable in approving funds to Avro without high-level government support in writing.

The local bank consortium has said it will not extend financing until Avro is legally formed.

Mr Ko also said the company was seeking "clarifications" on "two or three" of the seven key conditions put forward by the Taiwan side to BaE. "We hope that this can be done in the next few days," Mr Ko said.

These are likely to involve Taiwan's request for a \$5m "technology transfer assistance fee" to help TAC undertake the assembly operation.

## China planners put phones before roads

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Andrew Adonis and Bernard Simon on the implications of Beijing's decision to make telecoms a development priority

imports of telephone equipment face a 25 per cent duty. The duty is waived only if the importer has access to financing, but financing becomes more difficult as volumes increase.

Nortel already supplies 20 per cent of the Chinese PBX market from a venture known as Tong-Guang Nortel. It expects another joint venture to be turning out equipment for data transmission within the next 12 months.

Its latest agreement is designed to extend the Toronto-based company's presence to switching equipment and large circuits, as well as a research centre for advanced telecommunications technology. The first fruits are expected to be a joint venture to produce Nortel's flagship DMS-100 digital switching system.

The company declines to identify its partners, but it says that a factory, with an initial capacity of 2m lines a year, is nearing completion in Guangdong province. Plans are already being drawn up to expand capacity - possibly at a different site - to 4m lines.

Profit is at the moment a secondary consideration in Nortel's drive to secure a hold in China. But Mr Long expects that earnings will have climbed by 150 per cent a year between 1990 and the end of 1993, compared with a 35 per cent rise in revenues.

"While (China) is still not as profitable as mature markets, it is nevertheless beginning to bring some return to Northern Telecom," he says. "We think



Ringling changes: manual pay phones are likely to be phased out under the modernisation plan

it will continue that way to a point where eventually earnings there will be more consistent with other major markets."

The market for switches is dominated by Alcatel, the French supplier, with an estimated 40 per cent share. NEC

of Japan and Siemens of Germany also supply from local factories. Ericsson and Fujitsu have carved out businesses of some size, and smaller operators, such as the telecommunications arm of Philips, the Netherlands electronics group,

are also making inroads. The two leading North American suppliers, Nortel and American Telephone & Telegraph, the largest US operator, hope to catch up the European leaders. In March AT&T signed a memorandum of understand-

ing with the Chinese which one company executive said could be worth "billions of dollars" in orders for everything from fax machines to advanced transmission equipment.

Mr Long believes that the North Americans owe their advance partly to a growing Chinese demand for features such as intelligent networks, adding that "the market is definitely moving our way in terms of buying criteria".

For their part, the European suppliers can point to contracts signed and joint ventures launched.

Alcatel, believed to be the largest supplier to the Chinese market, earlier this year won contracts worth \$400m (£267m) for transmission and exchange equipment to be supplied through two joint ventures.

China is now Ericsson's fifth largest market. In the first quarter of this year it accounted for more than 7 per cent of sales - up from 3 per cent last year, when it was the company's ninth largest market.

Three months ago, Ericsson signed its largest ever contract, in China - a \$300m deal to provide switching and transmission equipment for China's Guangdong Post and Telecommunications Bureau. Last month it added \$50m in business from the province for central office switching equipment.

It has other contracts to supply equipment to Beijing, Tianjin, Guangxi and Hebei.

Philips, the Netherlands electronics group which has a growing telecommunications business, has three assembly plants in China, operated with local partners. China is the division's second largest market after Germany.

## SA-Japan flights agreed

SOUTH AFRICA has reached in principle an agreement with Japan to allow the first direct flights between the two countries from next year, writes Gordon Cramb in Tokyo.

The transport ministry in Tokyo said yesterday the accord, still subject to parliamentary and other approvals, had followed talks in Pretoria which ended on Friday.

Japan restored diplomatic links last year. It was South Africa's leading trading partner until 1987 when it cut further growth in commercial dealings. Sanctions have since been lifted, but bilateral trade remained unchanged in dollar terms last year at \$3.57bn, with South Africa enjoying a modest surplus.

Japanese carriers are to be

allowed a total of two flights a week into Johannesburg from any departure point, while South African Airways is to have the same number of weekly slots at the new Kansai international airport being built near Osaka.

But Japanese holidaymakers are likely to be wary of South Africa until political violence there is quelled.

## Exporters shift production to counter high yen

JAPANESE exporters are stepping up efforts to fight the impact of the yen's sharp rise on profitability by moving more of their production outside the country and increasing procurement of foreign-made components, writes Michio Nakamoto in Tokyo.

A growing number of exporters are shifting manufacturing to lower-cost areas in south-east Asia and China, or localising production for regional markets.

Seiko, the watch and precision instruments maker, said it might move low-end watch production to Hong Kong, where it already has an assembly plant. Komatsu, the construction machinery maker, is shifting the development and manufacture of large construction trucks for exports to the US within the year.

Within three to four years Komatsu is also moving production to Germany of medium-sized wheel-loaders. The

Japanese plant where the company now manufactures the wheel-loaders will gradually shift production to small cranes.

Meanwhile, Japanese companies are increasing procurement of foreign parts to help lower their cost base.

Fujitsu, Japan's largest computer manufacturer, will attempt to double procurement of foreign-made parts by 1995 by securing more items from areas such as south-east Asia and buy-

ing more local parts for products manufactured overseas.

The decision would increase the average ratio of foreign parts in Fujitsu's machines from about 13 per cent to about 24 per cent, the company said.

Fujitsu has set up an international procurement division and is increasing the number of people with responsibility for procuring parts at ICL, its UK subsidiary.

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Emerging Companies	1	44	4	403
American Growth	1	37	2	51
Far Eastern Growth	1	44	3	41
Japanese Growth	2	103	-	-
European Growth	2	34	3	38
UK Growth	1	36	1	42
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## NEWS: UK

## Fees for unraveling Maxwell '£100m'

By Norma Cohen, Investments Correspondent

INSOLVENCY practitioners responsible for unraveling the empire of the late Mr Robert Maxwell were criticised yesterday by a parliamentary committee for charging too much for their services and taking too long to recover assets.

The Select Committee on Social Security yesterday issued a report on efforts to recover assets for pensioners stolen from their schemes. "The unraveling of the chaos and confusion left by Robert Maxwell has so far cost the creditors of the former companies, which include the pensioners, some £50m. The final total cost could exceed £100m," the report said. Unraveling the finances of the companies could take four years.

The committee urged the government to consider the establishment of an independent monitor in the case of larger insolvencies.

The report also criticised several City investment banks which dealt with Mr Maxwell, particularly Lehman Brothers International and Credit Suisse. These two resisted efforts of liquidators to provide full details of transactions they handled forcing the liquidators to seek a court order.

The committee, meanwhile, singled out for criticism several leading insurance companies which provided up to £100m in insurance policies for company officers and pension fund trustees. These companies are now seeking to void their policies, despite having accepted millions of pounds in premiums, on the grounds that Mr Robert Maxwell failed to inform them of his fraud.

Administrators of Maxwell companies and Mirror Group Newspapers have been paid £3.5m by a group of insurance companies in an out-of-court settlement over a policy on the life of the late Robert Maxwell. This is the untested part of a £6.5m settlement sought by the administrators and Mirror Group Newspapers from the late Robert Maxwell's insurers.

Editorial Comment: Page 19

## ● No sign of Tory truce ● Ratification challenged ● Mitterrand backs monetary union

## Major plays down row over Euro-sceptics

By Philip Stephens, Political Editor

MR JOHN Major, the UK prime minister, yesterday sought to draw a line under the political row sparked by his off-the-record remarks bracketing three cabinet ministers with the Euro-sceptic "bastards" who oppose ratification of the Maastricht treaty by Britain.

But as politicians prepared for the long-summer parliamentary recess which starts tomorrow, Tory MPs on both sides of the European argument refused to call a truce. Speaking after the Franco-British summit in London, Mr

Major dismissed suggestions that the Maastricht treaty, the cause of the year-long civil war in the Conservative party, had been overtaken by events.

He also declined to answer questions on his leaked, informal comments to a television journalist in which he explained his reluctance to sack three cabinet ministers - widely assumed to be Mr Peter Lilley, Mr Michael Portillo and Mr John Redwood - who share the antipathy to the treaty of Tory Euro-sceptics.

Downing Street reinforced the impression that the prime minister is determined to close the affair, indicating he had

not found it necessary to speak to the ministers concerned.

Instead, the prime minister concentrated on insisting that Britain would complete the ratification process after what he expected to be a relatively short legal challenge by Lord Rees-Mogg launched at the High Court yesterday.

Lawyers acting for the former editor of The Times told the court that the government was acting unlawfully in three respects:

● It intended to increase the powers of the European Parliament by ratifying the Protocol on Social Policy;

● without parliamentary

authority it intended to alter the content of the Treaty of Rome by ratifying the Protocol on Social Policy; and,

● without parliamentary authority it intended to ratify Title V of the Treaty on European Union which deals with a common foreign and security policy which would transfer prerogative powers away from the UK.

Lawyers acting for Mr Douglas Hurd, the foreign secretary, said that Lord Rees-Mogg's case against the government was based on "fundamental constitutional misconceptions" and amounted to an attack on parliament.

Mr Major, meanwhile, faced a separate attack yesterday from Sir Edward Heath, the former prime minister, who renewed his criticism of the prime minister for appearing to allow his policy towards Europe to be dictated by a minority in his cabinet.

President François Mitterrand added to the prime minister's discomfort by brushing aside suggestions that the central ambition of the Maastricht treaty - a single currency - had been put on the backburner.

The French leader said that the Paris government expected still to achieve economic and

monetary union within the next few years.

Leaders of the Tory party over Maastricht also signalled their determination to maintain the pressure on the government when it brings forward legislation in the autumn to allow an increase in Britain's contributions to Brussels.

Right-wing Tory MPs are warning that a budget in November which raised income or other taxes on UK citizens would be unacceptable if the government was planning at the same time to hand more money to the European Community.

## London tax burden brings calls for more investment

By John Willman, Public Policy Editor

LONDONERS and those working in London pay £2bn a year more in taxes than is spent by central and local government in the capital, according to a report to be published on Friday by the Corporation of London, the local authority for the City of London.

The report, by Professor Douglas McWilliams of the Centre for Economics and Business Research, says that the transfer of resources out of London on such a scale will reduce the rate of growth in the UK economy.

Prof McWilliams suggests that some of the net contribution London makes to the economy should be ploughed back into the capital through an increase in public investment in transport infrastructure.

The report will provide further ammunition for businesses and London pressure groups campaigning for more of the taxes paid in London to be ploughed back into the capital's economy.

The report says that all countries have parts that are more prosperous than others, and which make a net contribution to public finances.

However, the contribution made by London is unusually

## LONDON'S GDP - SOME INTERNATIONAL COMPARISONS

	GDP \$bn	Pop (m)
United Kingdom	937	57.9
Sweden	260	8.7
Belgium	225	10.0
Denmark	145	5.2
Russia	125	143.0
Greater London	122	6.8
Saudi Arabia	122	16.4
Hong Kong	111	5.9
Portugal	80	10.5
Singapore	52	2.8
Ireland	50	3.7

Source: Centre for Economics and Business Research

large, it says. By adding to business costs, it will damage London's economic prospects in competing with other European cities as a financial centre.

That, in turn, will reduce the rate of growth in the rest of the economy, which is heavily reliant on London's prosperity. Nearly 3m jobs outside London depend wholly or partly on supplying the capital, the report says.

If Greater London were an independent state, its GDP would be over £70bn - larger than four EC member states and comparable with that of Hong Kong, says the report.

It would also have a healthy trade surplus. Exports of goods

and services to the rest of the UK and the world exceeded imports by £10.6bn in 1989, the most recent year for which input/output data are available.

"In broad terms, London's economy is based on services, a high proportion of which is exported," said Mr McWilliams. "It largely consumes manufactured goods, a high proportion of which is imported."

London's balance of trade surplus is recycled to the rest of the UK economy through taxation, which has comfortably exceeded public expenditure in the capital for decades.

This is partly because people working in London have higher earnings. The average job in London generates 48 per cent more income-based tax than the average job in the UK.

However, current public spending in London in relation to GDP is only 74 per cent of the national average. This is because much of UK public spending goes on social support and relatively little on supporting business, according to Prof McWilliams.

"Without the London contribution, the UK public sector borrowing requirement would be 10.6 per cent of non-London GDP - higher than any other OECD country other than Italy," the report says.

## Launderers face tough new bank vigilance

By John Gapper, Banking Correspondent

BRITAIN'S clearing banks yesterday predicted a big rise in the number of reported cases of money laundering following a change in the law this week which threatens bank employees with jail if they fail to alert police to such criminal activity.

The British Bankers' Association forecast a "very significant" rise in the 20,000 cases of possible money laundering which are currently reported by bank employees from the 1.6bn transactions that take place each year.

The Criminal Justice Bill, expected to receive Royal Assent this week, is likely to lead to a sharp increase in the reporting requirements on banks and other financial services companies from April next year.

The bill widens reporting requirements so that banks must report not only transactions suspected to be linked to money laundering and terrorism, but also possible serious criminal activity such as fraud, theft, and extortion.

It also introduces for the first time a sanction of up to five years' imprisonment for bank employees who are negligent in reporting suspicious activities, and up to two years' jail for directors of organisations that are negligent.

Banks have argued successfully against the compulsory reporting of all transactions above a certain size, as is the case in the US. Sir Nicholas Goodison, association president, said this approach would have been "crazy".

The banks have accepted additional costs estimated at up to £20m initially and £20m a year thereafter, associated with additional staff training and the establishment of central reporting offices to review branch suspicions.

Ms Sue Thornhill, the association's assistant director, said there was likely to be an "increase in suspicion at all levels" following the introduction of the threat of criminal prosecution of negligent staff.



Gooch, stumped for 26, quits the field for the last time as captain

## Gooch stands down as the Ashes turn to dust

ENGLAND'S national summer game was yesterday overshadowed by the loss of the Ashes, arguably the sport's most prestigious trophy, shortly followed by the loss of the national captain, Graham Gooch, writes Jim Kelly.

He resigned half-an-hour after England crashed to defeat in the fourth Test Match at Headingley, Leeds. The Australians are now three ahead with just two Tests left to play. Even rain could not save England, and despite showers, they lost by an innings and 146 runs.

Gooch, 40, has captained England for 34 Tests in three-and-a-half years and has become a national institution in the process.

His facial stubble and downcast expression are a familiar part of the English sporting scene. His nickname is reportedly "Zap". But his exploits with the bat have made him a national hero.

He will be remembered for 19 Test centuries - including an epic 333 against India. Less illustrious was his participation in the rebel tour of South Africa in 1981-82.

## MPs criticise government over cost of MI6 building

By Philip Stephens, Political Editor

AN ALL-PARTY committee of MPs yesterday delivered a rebuke to the UK government for covering up the £86.7m cost of fitting out a new building for Britain's Secret Intelligence Service.

In a report on Foreign Office spending issued in London, the House of Commons' foreign affairs committee accused ministers of "burying" the £85.5m being spent on the offices in the current financial year.

It also notes that the total cost of internal and equipment and furnishings for the new office complex on the South Bank of the Thames at Vauxhall Cross is now expected to

reach £96.7m.

That is substantially higher than the £52m spent by Mr Jacques Attali, the former head of the European Bank for Reconstruction and Development.

Mr Attali's expensive tastes proved his downfall and he resigned earlier this month.

The overall cost, including the land, of the new concrete and glass headquarters for Britain's spy service - more commonly referred to as MI6 - runs into several hundreds of millions of pounds.

Designed by Mr Terry Farrell, its construction - coinciding with the ending of the Cold War - was vigorously opposed by the Treasury but was approved personally by Lady Thatcher, the then prime

minister. The MPs concede that the government does have arrangements for such expenditure to be monitored by the National Audit Office.

But they criticise the way that such substantial amounts of money - which are equal to the amount that the Overseas Development Agency spent in the same year on all its bilateral emergency and refugee aid - was buried in more general expenditure totals for the Foreign Office.

More generally the reports suggest that the Foreign and Commonwealth Office should consider reducing the number of staff it has based in London in order to free additional personnel for overseas postings.

## Cool US reception for minister

By David Goodhart in Washington

GROWING DIVERGENCE between British and American approaches to labour market policy prompted an unusually cool reception for Mr David Hunt, the secretary of state for employment, in Washington yesterday.

Mr Hunt who is on a short tour of the US to look at training schemes for the unemployed and to promote inward investment into the UK met only junior officials in the US Labor Department.

British diplomats said it was unusual for a British minister not to be able to meet his opposite number, in this case Mr Robert Reich who was at an important conference in Chicago. But his deputy and other senior officials were

also unavailable. His most senior discussion partner was Mr Jack Otero, a deputy under-secretary of labour, who is trade union official and a long-standing supporter of international labour regulation such as the EC's Social Charter.

Department of employment officials denied that Mr Hunt had been snubbed and pointed out that he did meet with a member of the US cabinet, Mr Richard Riley, the education secretary. However, the UK's stress on labour market deregulation and the hire and fire policies symbolised by the Social Chapter opt out does not chime with a Democrat administration interested in increasing employment security and worker consultation as a means to improving US productivity.

## Britain in brief



## Irish leader concerned at party 'deal'

Mr Albert Reynolds, the Irish prime minister, said that he would be "very concerned" if efforts to renew the political talks process in Northern Ireland were to be undermined by any deals done at Westminster between the Conservatives and the Ulster Unionist Party (UUP).

Last week, the UUP backed a general election pledge and voted with the government on the Maastricht Treaty vote, leading most observers to conclude - despite official denials - that a deal had been done involving a proposal to establish a Northern Ireland select committee at Westminster.

Mr Reynolds emphasised that the 1985 Anglo-Irish agreement gives the Irish government the right to be consulted on Northern Ireland matters, making it clear that Dublin will view any unilateral moves by the British government on the future governance of the province as a breach of the agreement.

## Syndicate cover underestimated

The underwriter of two of the heaviest loss-making syndicates at the Lloyd's of London insurance market may not have appreciated the size of his exposure to catastrophe losses and bought insufficient reinsurance protection, a Lloyd's investigation has concluded.

Details of the losses are contained in a review into Devonshire syndicates 216 and 833/834, whose losses between 1989 and 1991 amounted to £196m. Both syndicates specialised in so-called "spiral" reinsurance, covering the high level catastrophe losses of other syndicates and companies.

## Increase in DTI inquiries

The number of confidential company investigations started and completed by the Department of Trade and Industry's investigation division rose by more than 50 per cent in the first quarter of this year. Sixty-three investigations were started and 64 were completed, compared with 40 started and 35 completed in the previous quarter. The division looks into insider dealing and other offences under companies, financial services and insolvency legislation.

## Labour aid claims rejected

Mr Tim Sainsbury, the industry minister, rejected allegations by the opposition Labour party that policies of government had determined changes in the areas qualifying for regional aid.

He told the House of Commons that the government's new Assisted Areas map, which has to be approved by the European Commission, ensured that help would be concentrated on areas with the most problems. Mr Sainsbury maintained that the changes made to the previous map drawn up in 1984 reflected the fact that unemployment had dropped in the north and north west while it had worsened in London, the south east and the south west.

## More funds for energy schemes

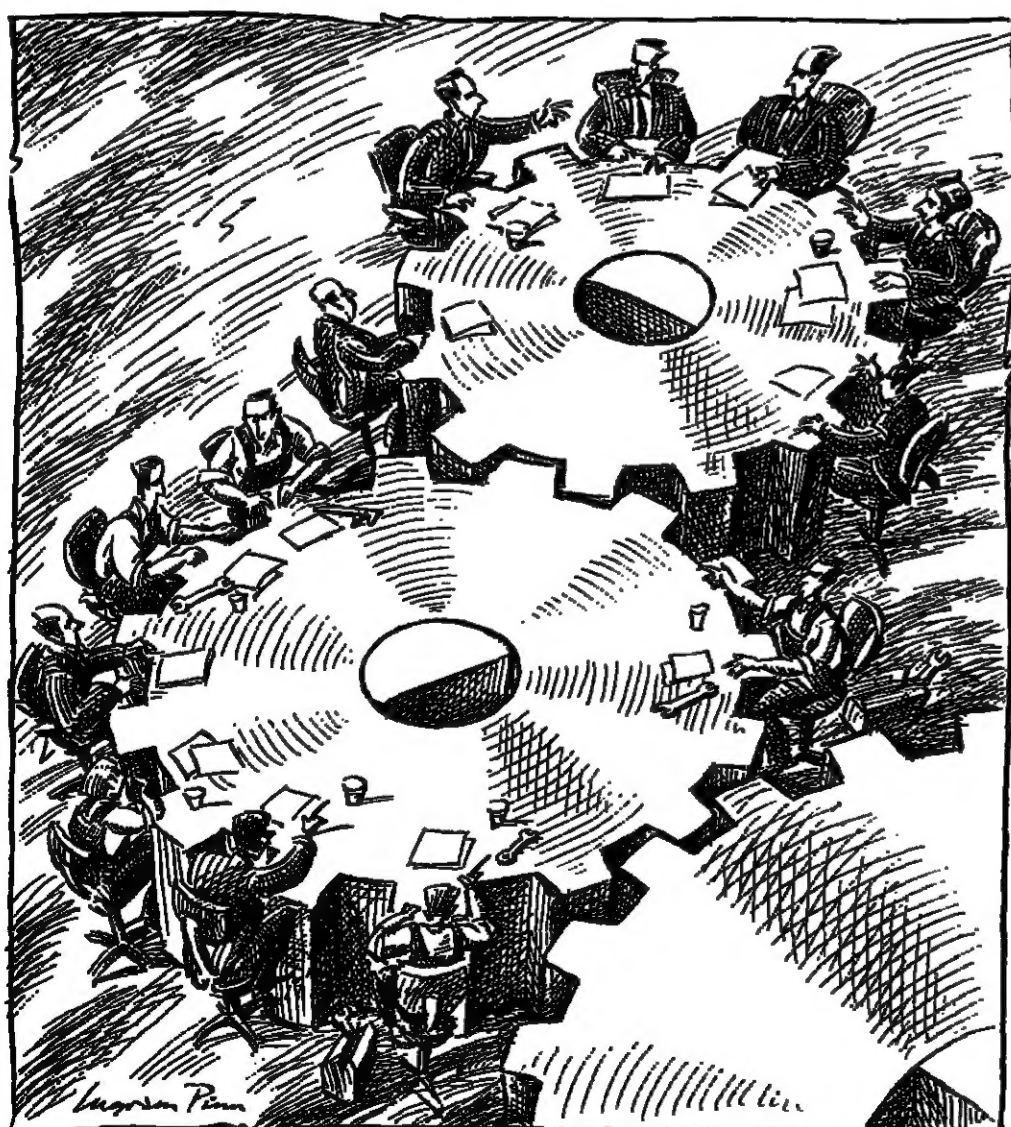
More funding for energy efficiency schemes is among the government's latest plans for meeting international targets on global warming.

The government said that it would "reinforce" the newly-created Energy Saving Trust, set up to help households identify energy saving measures. It also plans to take energy use by central government to below 80 per cent of 1990 levels by the year 2000, and to curb transport emissions.

## MP protests at whaling

Mr Tony Banks, Labour MP for Newham North West, was freed by police after he chained himself to railings in central London in protest against Norway's resumption of commercial whaling. No charges were brought against Mr Banks, a strong animal rights campaigner. "I will continue to protest," he said after the fire brigade cut him free.

## ENGINEERING FOR PROFIT



On Tuesday September 14th 1993 the Financial Times will launch a twice-yearly supplement... Engineering for Profit.

Written by Financial Times journalists from across Europe, Engineering for Profit will examine innovation at the grass roots linking such activity to the "bottom line" in a way that non-engineering readers will understand and find interesting and thought-provoking.

Produced as a separate section in the Financial Times the first issue will contain a special survey on the European Machine Tool Industry as well as blending news, analysis and market opportunities for companies of all sizes.

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FT SURVEYS



# GHANA

Tuesday July 27 1993

Last year's rise in inflation was mostly caused by profligate budget management: Page two

President Rawlings' conversion to democracy is treated sceptically by opposition parties: Page four

In a continent full of strongmen propped up by sclerotic regimes, Flight-Lt Jerry Rawlings, Ghana's leader since 1981, stands out for his shrewd ability to adapt to changing times - which may explain his enduring popularity.

Last January Mr Rawlings effected the transition from military dictator to elected president with the same apparent ease as he abandoned revolutionary Marxism a decade ago to become the model pupil of the International Monetary Fund. His timely conversion to democracy spared Ghana the suspension of international aid that which has crippled other, less-adaptable African nations. But Ghanaians could be excused for believing that little has changed.

They have the same president, almost the same government team and economic policies as before. The new parliament, dominated by Mr Rawlings' National Democratic Congress (because there is an opposition boycott), has yet to prove it can be an independent counterpoint to the president's authority. And many of the democratic safeguards enshrined in the new constitution, such as a human rights commission and an independent press council, have yet to be put in place.

Most western observers judged the election to be relatively free and fair, but some Ghanaians, particularly the educated elite in Accra, argue that donor governments, desperate for a success story in Africa, turned a blind eye to unfair rules of the game that gave Mr Rawlings an unbeatable advantage. The electoral register, inflated by more than 1m names, was seriously flawed, and the opposition had been legalised barely six months before the election - hardly enough time to organise an effective campaign.

It was a contest, they say, in which Mr Rawlings was the star player, linesman and referee. In protest, the four main opposition parties, ranging from the socialist followers of Ghana's founding father, Kwame Nkrumah, to the conservative New Patriotic Party (NPP), boycotted the parliamentary elections in December.

Ghana has blazed a trail in Africa, implementing economic reform while managing the transition to civilian rule. The toughest test may lie ahead, as the government seeks domestic and foreign investment vital for export-led growth. Leslie Crawford reports

## Determined to press on

It is a decision they now deeply regret. Their self-exclusion from parliament has left them almost as voiceless as they were under military rule. Furthermore, seven months into the new regime they are still bickering among themselves over how to survive in the political wilderness.

Some, such as Mr Bernard Joso da Rocha, the NPP chairman, favour a policy of reconciliation with the Rawlings government. He asked, and obtained, permission to submit his party's views on the 1993 budget to parliament. "The fact that we boycotted the parliamentary elections does not render this government illegitimate," Mr da Rocha concedes. "Our only hope of influencing policy is to establish a dialogue with the party in power."

But Mr da Rocha's pragmatism jars with the bitterness harboured by other NPP stalwarts. Professor Adu Boahen, the NPP presidential candidate, refuses to accept the results of the contest he lost. "I will never recognise Rawlings as a legitimate leader. I have no wish to accord respectability to his government," he says.

If Ghana's democratic transition requires a leap of faith, then greater faith still is needed to believe that after a decade of economic reforms, the country is ready to make the qualitative leap into accelerated, export-led growth.

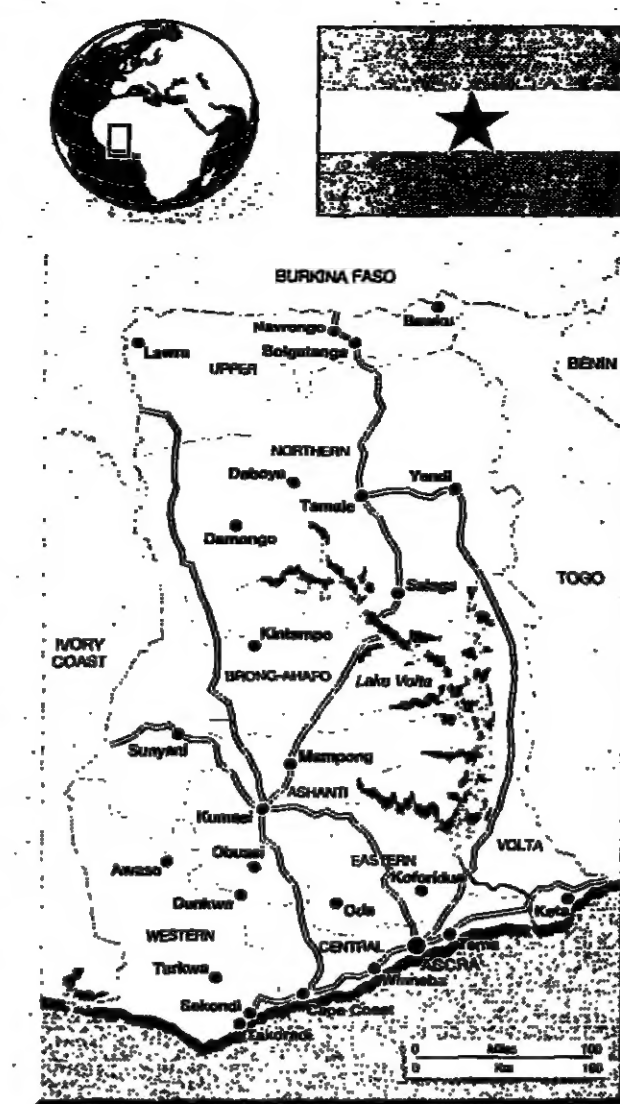
Having spent the past 10 years trying to repair the damage caused by socialist mismanagement in the 1960s and 1970s, Dr Kwesi Botchway, Ghana's veteran finance minister, believes the country is sufficiently recovered to shift its focus from reform to active development.

His accelerated growth plan, unveiled at a Paris meeting of donors last month, is bold in conception. The target - to achieve 8 per cent annual growth rates by the turn of the century - is ambitious. Ghana is hoping to model itself on the newly industrialised nations of south-east Asia.

If it succeeds, 10 years of liberalisation, deregulation and devaluation will have been vindicated. And the World Bank and the IMF, struggling to convince sub-Saharan Africa of the benefits of structural adjustment, will have a new development example on the continent.

For the plan to work, Dr Botchway is betting on a revival of manufacturing, believing that a leaner, export-oriented manufacturing sector can rise from the ashes of structural adjustment.

The accelerated growth plan calls for non-traditional exports (everything that is neither cocoa, gold nor timber) to grow by 35 per cent a year throughout the 1990s. Investment and domestic savings ratios will have to improve



substantially to sustain higher growth rates. And the sluggish agricultural sector, which has suffered from the collapse of cocoa prices and erratic weather conditions, will have to be prodded into greater productivity.

Dr Botchway's plan was overwhelmingly endorsed at the donor conference, which pledged a further \$3.1bn in assistance over the next two years - almost half a billion dollars more than the government had bargained for.

There are reasons for optimism. Since Ghana began to

swallow the IMF medicine in 1983, gross domestic product has grown by an average of 4.9 per cent a year, more than twice the sub-Saharan average of 2.1 per cent. It follows a decade during which real incomes per head in Ghana fell by 30 per cent.

Yet Ghana remains desperately poor. Its average per capita income was only \$400 last year. Low wages have led to an exodus of Ghanaian professionals. There are fewer doctors in Ghana now (one for every 15,000 inhabitants) than in 1975. The World Bank esti-



Young Ghana: faith in the future



Rawlings: adaptable and popular

mates that at current growth rates, it would take 20 years for the average poor Ghanaian to cross the poverty line.

Hence the urgency to push for accelerated growth. A recent World Bank strategy document entitled "Ghana 2000 and beyond - setting the stage for accelerated growth and poverty reduction", estimates that if growth rose to 8 per cent, then the average poor Ghanaian could cross the poverty threshold in 10 years.

Ghana's fast-track development plan has a second, equally important objective: to wean itself off aid dependence by attracting new foreign investment and diversifying exports. Dr Botchway says there are "real signals" that this is already happening. "A number of multinationals who quit in the 1970s are coming back," he argues. "They are looking at the comparative labour costs and are interested in producing on a large scale for export. There is tremendous scope for rapid expansion in agro-processing industries and in wood processing."

And yet Ghana's private sector success stories in export diversification remain limited. One company accounts for 90 per cent of Ghana's furniture exports. Another company produces most of Ghana's fruit juice exports. Pineapples are proving to be a lucrative alternative to cocoa, but only because they have been able to displace the more expensive produce from neighbouring Ivory Coast.

Some multinationals which are encountering quota problems in the Far East have expressed interest in setting up manufacturing plants in proposed industrial incentive zones. But few investments have yet materialised.

While the private sector in Ghana agrees with the broad thrust of the government's policies, there is much scepticism over its implementation. "If we think that small manufacturers can suddenly become exporters, we are dreaming," says Mr Ishmael Yanson, chairman of Unilever Ghana. "We need to attract multina-

Local manufacturers are starved of long-term domestic finance - two venture capital funds set up last year have yet to lend a single cedi to budding entrepreneurs.

tionals on the basis that they can come to exploit our cheap labour and natural resources."

Local manufacturers, Mr Yanson says, have little knowledge of export markets. They lack managerial skills and are starved of long-term domestic sources of finance. The government's Export Promotion Council has been ineffective in selling Ghana abroad, while a couple of venture capital funds set up last year have yet to lend a single cedi to budding entrepreneurs.

Mr Yanson places more hope in a new trade and invest-

ment programme launched by US aid and other donors, which aims to provide the services and know-how that potential exporters need. The government, for its part, is introducing "a new agenda of activism" that will target investors with special incentives. "Picking winners is a hazardous thing," Mr Botchway concedes, so he has asked the private sector to draft guidelines for the selective protection of infant industries.

"The protection measures will have to be time-bound, the criteria clear and transparent, to avoid charges of political favouritism," he explains.


Whether all this can add up to accelerated growth remains to be seen. Much will depend on the government's ability to maintain a healthy macroeconomic environment.

Last year, as Ghana prepared for the presidential election, the government was frightened into granting large pay increases to striking public servants who were on strike. The government's wage bill rocketed to 50 per cent of public revenues, derailing the delicately balanced budget. Inflation rose to 10.1 per cent in 1992 against a 5 per cent target. The World Bank and co-financing donors withheld \$170m of development assistance. And overall economic growth slowed down to 3.9 per cent.

Dr Botchway moved swiftly to close the budget deficit by imposing a new "killer tax" on fuels in January. Meanwhile, the Bank of Ghana (central bank) sharply jacked up its discount rate to bring the money supply under control.


Inflation, however, is not expected to fall below 20 per cent this year, 1993, therefore, is being billed as a year of belt-tightening and retrenchment. Western diplomats in Accra do not expect the economy to take off again before 1995.

But the determination is there to press ahead. And while the ink may still be fresh on Ghana's accelerated growth plan, the document marks a psychological turning point in the nation's history. By underscoring its faith in its own potential, Ghana is shedding its image as a victim of an unjust world economic order.




Unilever

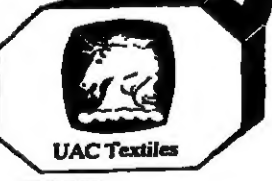
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## ASHANTI GOLDFIELDS

CORPORATION (GHANA) LIMITED

at the forefront of Ghana's economy

FINANCIAL AND PRODUCTION HIGHLIGHTS

	1992	1991	% INCREASE
Production (ounces)	245,200	275,400	124.3
Income (CEG millions)			
Total (before taxes)	18,523	18,523	423.0
After taxes	11,218	11,218	344.1
Operating profit	8,833	8,833	230.6
Profit before tax	10,254	10,254	226.2
Net profit for the year	7,789	7,789	249.2
Dividends	2,500	2,500	220.0

**CORPORATE PROFILE**

Ashanti Goldfields Corporation (Ghana) Limited is the largest goldmining company in Ghana. It has substantial underground and open pit mining operations which provide gold bearing ore for the treatment in three process plants. Tailings from the past treatment operations are reprocessed through the separate Tailings Treatment Plant.

Ashanti Goldfields has a total mining concession of approximately 345 square kilometres situated near Obuasi, in the Ashanti region of Ghana. Gold mining has taken place in this area for many centuries and the Company is able to trace its origins back to 1897.

Rehabilitation and expansion programmes in recent years have ensured the emergence of Ashanti Goldfields as one to the world's leading gold producers with the potential to continue to develop and thrive well into the next century. Current production is in excess of 655,000 ounces per annum.

The measured gold resource within the current mining areas has been calculated at nearly 18,000,000 ounces and the Ashanti Mine Expansion Project is now underway to realise this by increasing production to over 1,000,000 ounces per annum by 1996. The project will include the construction of an

additional process plant as well as expanding and developing the existing underground and surface mining operations. Ashanti Goldfields will have the world's largest bacterial oxidation process plant operational by mid-1994. This new process is not only cost effective but is clean and safe.

The Corporation maintains an aggressive exploration programme to sustain its future operations and aims to maximise the value of its resources. A workforce of about 10,000 is employed and high priority is placed on training and skill development at all levels of the organisation. The health and safety of employees is of great importance and ongoing programmes will continue to be successful in minimising the risk of injury or sickness.

In close consultation with the Environmental Protection Council, the Government, Local authorities, lenders and independent advisors, the Company is undertaking an Environmental Action Plan to ensure that Ashanti Goldfields' operations have minimal impact on the environment.

The Company is owned by the Government of Ghana (55%) and Lonrho Plc (45%) and is one Ghana's largest earners of foreign exchange.

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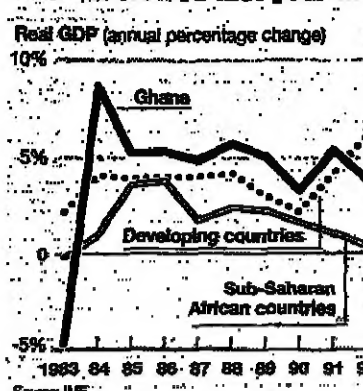
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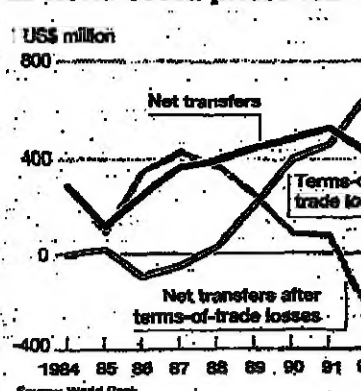


## GHANA 2

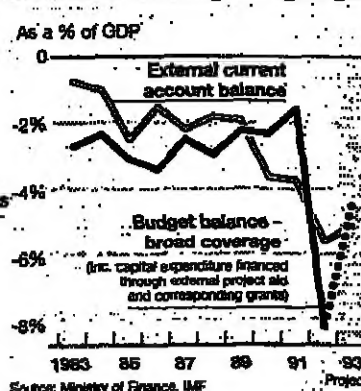
## Growth slowed last year ...



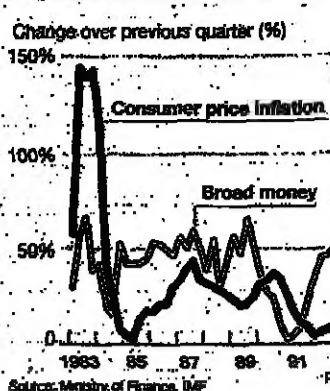
## as world cocoa prices fell ...



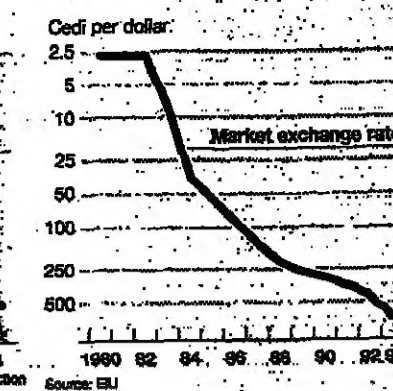
## and the widening budget gap ...



## pushed inflation up ...



## and the exchange rate down



NO ONE was surprised when 1992 turned out to be both a turbulent and a disappointing year for Ghana's economy.

On top of severe budgetary pressures linked to last year's transition to civilian rule, Ghana also suffered a 21 per cent fall in cocoa earnings, its main export commodity.

The result was a year which blotted the last page of the military government's copybook on the 10th anniversary of Ghana's structural adjustment programme.

1992 began with the government's finances in apparently good shape. A three-year extended structural facility with the International Monetary Fund ended in 1991 with the budget in surplus to the tune of 1.5 per cent of gross domestic product.

Inflation had fallen to 10 per cent, from a peak of 142 per cent in 1983 when the government's Economic Recovery Programme began. And a succession of balance of payments surpluses since 1987 had enabled the government to build up a healthy pile of foreign exchange reserves, covering more than four months' worth of imports. By the time last November's presidential election finally took place, all these indicators had moved sharply in the wrong direction.

A projected budget surplus of 1.5 per cent of gross domestic product became a deficit of 4.8 per cent; the government was forced to borrow from the banking system, the broad money supply grew by 51 per cent and inflation accelerated to 13.3 per cent by year-end.

The outside world can take only part of the blame. The decline in cocoa prices and the sharp drop in Ghana's terms of trade - was the main reason for the deceleration in economic growth. Agricultural output declined by 0.6 per cent

Edward Balls explains last year's economic turbulence

## A blot on the copybook



Market forces: the highest priority for the newly elected government this year has been to get the macro-economy back into balance

and total output growth slipped, as a result, to 3.9 per cent in 1992 from 5.3 per cent in 1991, the first year since 1983 in which Ghana has underperformed the developing country average.

A combination of the short-fall in net foreign transfers and the fall in the terms of trade produced a net outflow of resources last year, as the chart above shows.

Yet the main reason for last year's inflationary overshoot and balance of payments problems was profligate budgetary management in the run-up to last autumn's elections as the government succumbed to political pressures, much to the anger of President Rawlings' defeated opponents.

Government tax revenues were markedly lower than fore-

cast, the reason being half-hearted tax collection and lax enforcement of customs duties. But the bulk of the slippage occurred on the expenditure side of the budget as the government bowed to pressure from civil servants in the weeks before the election and grant what amounted to an across-the-board salary adjustment averaging 80 per cent.

Poor fiscal management is not uncommon in election years in the developed world. That the government resorted, to some extent, to pork-barrel politics might conceivably have been interpreted as an early sign that the transition to civilian rule and western-style democracy was on track.

But the donors did not see things that way. As imports accelerated and export growth

slumped, aid flows from the World Bank were suspended, the civil service reforms stalled and the government was unable to finance its rising current account deficit. The result was a sharp loss of reserves and a steep fall in the value of the cedi exchange rate.

The highest priority for the newly elected government this year has been to get the macro-economy back into balance in order to ensure a favourable spring report from the International Monetary Fund, and a warm embrace from the aid donors at the recent Paris conference.

Ghana, while far from being the largest recipient of aid among African countries, remains heavily dependent on gross aid flow totalling 8 per cent of GDP a year.

Fiscal policy has already been tightened sharply to bring the budget back into surplus, primarily through a 60 per cent rise in petrol prices. The government is projecting a recovery in revenue collection and an acceleration in the pace of the politically sensitive privatisation programme. But success will depend on the willingness of the civil service unions to accept a nominal pay freeze this year, although last year's excesses and the January petrol increase pushed the annual rate of inflation to 23 per cent in March. Inflation is not expected to fall below 20 per cent this year.

Monetary policy has been tightened aggressively to drain excess liquidity from the banking system - broad money in 1993 should barely grow. The

Bank of Ghana, having shifted last year from credit ceilings to open market operations and weekly debt issues, increased its rediscount rate in March. But credit creation in the first quarter was still excessive and in April the Bank imposed a supplementary reserve requirement of 15 per cent of assets on top of the usual 42 per cent.

Bankers in Accra say they are impressed by the effectiveness of the Bank's domestic operations and monetary conditions are now, reportedly, painfully tight. Less impressive has been the operation of the foreign exchange market.

Shortages of foreign exchange mean that the proposed inter-bank market is not working. Banks are forced to hand out the foreign exchange they receive as deposits, sharpening the incentive to engage in

export-oriented business. Thus, domestic conditions provide, at least for now, an inauspicious base from which to launch the government's campaign to accelerate economic growth to 8 per cent a year by the end of the decade. Indeed, the target of 4.4 per cent GDP growth this year looks highly optimistic.

The medium-term challenge is to achieve a sufficiently rapid rate of economic growth to reduce the incidence of poverty and wean itself from aid flows. The focus of reform has shifted to initiatives designed to raise standards of primary health and infrastructure, improve the efficiency of the civil service and streamline state sector and make Ghana a more attractive and profitable location for domestic and foreign private investment in order to encourage the growth of non-traditional export industries (see Page 4).

The government plans to press ahead with privatisation this year. This year's budget announced, for the first time, that profitable state enterprises will be sold off, and

KEY FACTS	
Area	239,537 sq km
Population	15.3 million
Head of state	Jerry Rawlings
Average exchange rate	1992 \$1=437 cedis
	July 14 1993 \$1=647 cedis
	1991 1992
Total GDP (\$m)	7,001 6,884
Annual % growth in	5.3 3.9
Real GDP	
At year end	
Reserves minus gold (\$m)	560.2 318.9
3 month treasury bills (%)	20.0 25.4
Debt	
Total external debt (\$m)	3,767.5 3,993.7
Debt service ratio (%)	28.9 25.8
Trade	
Current account balance (\$m)	-251.7 -376.1
Exports (\$m)	997.6 985.3
Imports (\$m)	1,318.7 1,456.6

Notes: 1991 out-turn, 1992 IMF estimates.  
(1) Debt service payments as a % of GDP  
(2) Trading partners share by value in 1991. Source: IMF.

senior Ministry of Finance officials confirm that they intend to privatise the state-owned banking sector.

Meanwhile the Ghana Investment Centre is being restructured as an investment promotion centre (rather than the distributor of operating licences and thus one of the economy's most inefficient bottlenecks). The proposed Ghana Investments Promotion Centre will have the job of publicising the government's new investment code, drawn up with the Private Sector Advisory Group.

This code is designed to reduce the minimum foreign participation in joint ventures to 10,000, and \$50,000 if the operation is wholly foreign-owned, unless the enterprise is a trading venture only.

Moreover, the code stream-

lines registration procedures for foreign joint ventures; guarantees repatriation of profits, dividends and fees in respect of loans and technology transfer agreements; guarantees a right to legal redress and fair compensation in the event of compulsory acquisition; and raises the quota limitation on expatriate staff.

But the short-term test is whether the government can restore macroeconomic stability and maintain it while the civilian democratic political system takes root.

Last year, Ghana failed that test and tried its donors' patience. Only if the government is able to fight another election campaign in four years without resorting to economic populism will the reforms begin to look secure.

## Tough budget to curb excesses

LITTLE did Ghana's electorate know, as they voted in last December's parliamentary elections, what surprises President Rawlings and senior cabinet ministers had planned for the first few months of the new civilian administration.

Within hours of Mr Rawlings' inauguration, Kweisi Botchway, finance minister, announced a frighteningly tough 1993 budget package of tax increases and spending cuts designed to restore order to Ghana's deteriorating public finances after the excesses of the election year.

The need for decisive action is readily apparent from the large gaps between last year's targets and the actual budget outcomes for 1992. The government began the year expecting to achieve a small budget surplus of 1.3 per cent of gross domestic product. But the combination of poor revenue collection and a 45 per cent increase in the civil service salary bill meant that, by December, this surplus had turned into a deficit of 4.8 per cent of GDP - 5.9 per cent excluding foreign grants.

This year's ambitious budget

Government Budget - Narrow Coverage* (% of GDP)	
	1990 1991 Prog. '92 1992 1993*
Revenue & Grants	18.2 15.2 16.1 12.2 15.8
of which revenue	11.8 13.8 14.9 11.1 17.5
Expenditure	13 13.7 14.3 17.0 18.5
of which current	9.7 10.2 10.6 12.4 13.9
Fiscal balance	0.2 1.5 1.8 -4.8 0.3
Domestic financing	-1.7 -2.0 -2.7 4.8 -2.2

\* Excludes project-related grants and capital outlays - IMF projections  
Source: Ministry of Finance, IMF

package is designed to restore the budget to surplus in one year - the government's declared strategy is to close the budget gap quickly, to prevent inflationary expectations becoming entrenched.

The centrepiece is a 60 per cent increase in the price of premium petrol - C1000 to C1600 a gallon (\$2.50 at current exchange rates). Speed and administrative efficiency meant that this was preferred to an early introduction of the government's planned value-added tax. It will account for almost two thirds of budget balance improvement.

The remaining tightening is expected to come from improved cocoa revenues, better tax collection and proceeds

from privatisation. The government expects to raise cedi 80bn - 1.8 percentage points of GDP - from divestiture. Thirty companies are up for sale, but the government can meet its targets in one stroke if the partial sale of its stake in Ashanti goldfields proceeds.

Opposition reaction to the budget was rapid. The NPP accused the government of "aggravating the economic hardship of a people already burdened by a decade of austerity measures" and called on the parliament to use its powers to reverse the petrol price increase. It argued that this was both regressive and unlikely to yield the government's revenue targets and suggested an alternative pack-

age of luxury import duty levies, excise taxes on cigarettes and alcohol and expenditure cuts.

Western observers in Ghana say the petrol price increase should be progressive.

The volume of petrol sales dropped 10 per cent in the first four quarters of this year but projected petrol tax revenues appear to be on target. Even so, the government budget plans look highly optimistic. Unless corporate and import tax revenues recover markedly and divestiture occurs as planned, this year's petrol price increase will not meet the government's ambitious revenue target of 17.5 per cent of GDP this year, up from 11.1 per cent last year.

Meanwhile, the spending targets assume that the government succeeds in freezing civil service salaries in a year in which consumer price inflation is expected to average 20 per cent. If spending does accelerate, or if revenue collection proves disappointing, a further rise in petrol prices cannot be ruled out.

Edward Balls

## Deficit goes up

Balance of Payments (\$m)	
	1990 1991 1992 1993*
Exports	896.8 997.6 985.3 1014.6
Imports	1205 1318.7 1456.6 1517.6
Trade balance	-308.2 -321.1 -470.3 -503
Net services	-325.5 -352.5 -376.2 -386.4
Current account	-633.7 -673.6 -846.5 -889.4
Overall balance**	118 170.8 -124.3 167.5

\* IMF projections - Discrepancy between current and capital account in errors and omissions  
Source: Ministry of Finance, IMF

While imports are projected to grow by 4.2 per cent, exports values are expected to rise by a disappointing 2.9 per cent; largely the product of continued weakness in world cocoa prices.

The government hopes that cocoa production will recover to 280m tons, exceeding last year's projected levels, but earnings are expected to fall by a further 10 per cent. The result is a projected deterioration in the current account deficit of 5.9 per cent of GDP.

Debt service payments will also jump this year, consuming a projected 37.7 per cent of export earnings as principal repayments become due, before falling to 24 per cent next year and 25 per cent in 1995. Outstanding debts remain equal to 53 per cent of GDP. While the burden of debt service payments has fallen from its mid-1980s high of 57 per cent of export earnings, it remains a substantial drain on the country's domestic resources.

Hence the World Bank's calculation that Ghana would need external financing of \$1.7bn over the next two years.

The donors have obliged, deciding last month to increase aid flows above the World Bank's minimum. This should bring great improvement in the capital account this year; it should reduce the balance of payments to surplus and enable reserves to be rebuilt.

The government is confident that it can achieve its target of a balance of payments surplus of \$187.5, 2.6 per cent of GDP and rebuild its reserves to over \$500m by the end of 1993, 3.7 months of imports - assuming that the budget remains on track and that the cocoa harvest is good, too.

Edward Balls



## GHANA COCOA BOARD

### COCOA SECTOR ATTRACTIVE FOR PRIVATE PARTICIPATION

In the last couple of years the Ghana Cocoa Board has been undergoing a lot of structural changes aimed at reducing operational costs and improving the efficiency of the purchasing of the schedule crops namely: cocoa, coffee and sheanut.

The board has introduced limited privatization into the cocoa sector. Three private companies have been licensed to purchase cocoa alongside the Produce Buying Company Limited. External sale of cocoa, however, remains the responsibility of the Ghana Cocoa Marketing Company Limited, a subsidiary of the Ghana Cocoa Board.

On the coffee front, Ghana lies between two robusta giants namely Togo and Ivory Coast and the Government of Ghana through the COCOBOD is providing adequate incentives for private participation in the agronomic production of coffee. These incentives include provision of improved seedlings to encourage early take off of the coffee sector. Production in this area is steadily moving upwards and any investment initiative which will help expand Ghana coffee production will be most welcome.

The Board has recently introduced competition into the internal and external marketing of coffee and sheanut. Licenses have been issued to a number of private companies to participate in the buying and export of African robusta coffee, coffee products, sheanuts and sheabutter and other sheanut products. It is worthy of note that Ghana has been a leader in quality production of sheanut for crushing plants of Western Europe and Japan.

Enquiries relating to investment in the cocoa sector and also buying of Ghana premium cocoa and cocoa products may be directed to:

THE CHIEF EXECUTIVE,  
GHANA COCOA BOARD,  
P.O. BOX 933, ACCRA, GHANA.  
Telephone: 221212 Telex: 2082 2311  
Fax: 665076  
Cable: COCOBOD - ACCRA



'A' hybrid cocoa pods on an experimental farm at Crig

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Cocoa still dominates agriculture, writes Leslie Crawford

## Roads to a better life

ON the road to Brenan Askuma, a small hamlet in the heart of Ghana's cocoa region, a signpost proudly announces that electricity has just arrived in this remote part of the world.

Much government and aid agency development work is devoted to improving "feeder roads" - the dirt tracks connecting isolated farms to main trunk roads, which are a lifeline to Ghana's 10m farmers.

Over the next three years, Ghana's donors will be financing a \$106m project to improve and extend the feeder road network. The deregulation of farm prices - an important plank in the government's economic reforms - also had the welfare of rural communities in mind, as farmers now sell their produce at market prices, instead of controlled ones.

And yet the agricultural sector, which dominates the economy (it contributes 41 per cent of gross domestic product) has stubbornly failed to respond to the new price incentives and other structural reforms.

Growth rates have averaged only 2.1 per cent a year (below the increase in population) since 1985, compared with rates of about 7.5 per cent in the rest of the economy. The government admitted in a recent economic review that it would be "a formidable task to raise agricultural output by 3.7 per cent a year" to achieve its objective of accelerated growth.

Dr Kwesi Botchway, the finance minister, blames erratic weather conditions and declining terms of trade for cocoa, Ghana's main commodity export, for agriculture's poor performance. "When it rains, we have a glut and prices fall. When drought strikes, we have a disaster," he says.

He denies that some of his economic liberalisation policies have harmed farm productivity. Farmers complain, however, that the removal of subsidies for fertilisers, and the spiralling cost of imported agricultural inputs because of the devaluation of the cedi, have placed these vital ingredients beyond their reach.

The government prefers instead to focus on promoting



Cocoa earns about 40 per cent of exports

Photo: Ghana Information Services

stronger links between agriculture and the rest of the economy. The absence of an effective agro-industrial processing capacity, it says, constitutes one of the main missing links in Ghana's quest for sustained agricultural growth and development. And if the agricultural sector is to contribute to the country's export drive, internationally acceptable quality standards, including packaging and product presentation, will have to be implemented.

Cocoa, which contributes about 19 per cent of agricultural GDP and 40 per cent of export earnings, will remain of pivotal importance, despite the slump in international cocoa prices and fierce competition from East Asia.

Dr EJ Adjei-Maafa, head of the cocoa policy unit at the Castle - the government seat in Accra - says his main objective at a time of plummeting prices is to maintain farmers' incomes, as 60 per cent of the rural population depend on this cash crop. He is doing so by slashing the bloated bureaucracy of the Ghana Cocoa Board (Cocobod).

"The layoffs have not made me a popular man, but they were necessary to save off the collapse of the industry," Dr Adjei-Maafa says. Cocobod's farms and chocolate factories have been privatised, and internal marketing opened to private sector competition. The government's target is to put at least 60 per cent of cocoa's market value into farmers' pockets.

Yields last season increased by 44 per cent to 405 kg per hectare. This, however, is still only half the yields achieved in neighbouring Ivory Coast, the world's biggest cocoa producer.

Cocobod will remain in charge of cocoa exports, but three trading companies have been licensed to compete with Cocobod over the purchasing of the crop at the farm gate. Competition is expected to be fierce, as Cocobod will pay a takeover fee of \$4,000 cedis (\$84) for every ton of cocoa delivered to port.

The government has set the new producer price for the 1993-94 season at 306,000 cedis (\$513) a ton, a 12.4 per cent increase over the previous season. Traders are promising to reimburse farmers quickly. Under the old regime, producers often waited for months for Cocobod to pay up.

The reforms have also revived the moribund co-operative movement in Ghana. Over 200,000 farmers have joined together to form the Ghana Co-operative Marketing Association.

Co-op members are both nervous and excited at the challenges ahead. They have been busy obtaining bank loans to finance their start-up costs, and have approached aid agencies for help. "We will only know how good the business is after the first season," says Mr Kojo Danso-Mensah at the Co-op's ramshackle offices above a chicken farming outlet in the heart of Accra.

Ghana's efforts to give its farmers a better deal have led to a great deal of smuggling from the Ivory Coast, where the government has slashed its cocoa purchasing prices to remain competitive. The "contamination" of Ghana's premium quality cocoa with its neighbour's inferior stuff is viewed with understandable apprehension. Smugglers who are caught are being charged with "economic sabotage" - a crime punishable by life imprisonment.

The government also hopes to attract foreign investment in oil palm, cotton, rubber and tobacco. It particularly wants oil palm to be processed in Ghana, to export a greater value added product. Dr Botchway says he is prepared to consider incentives to foreign manufacturers.

Forestry is another sector which the government wants to industrialise. The most common sight on Ghana's rural roads at present are broken down articulated trucks, leaning precariously on the side of the road where axle shafts have buckled under the weight of enormous tree trunks.

The government and ecologists are worried about the rapid depletion of Ghana's tropical hardwood forests, and a ban on all exports of raw logs has been decreed, beginning in 1994. From that date, all timber exports will have to be processed into sawn wood or furniture parts. (Several operators in the industry doubt whether the ban will be enforced. There are huge vested interests in the logging business.)

In addition, Ghana has set aside 16 per cent of its total land area to permanent forest and wildlife reserves. Outside these areas, the government rations logging licences.

But the population explosion, with the accompanying demand for food and fuel, has led to the removal of most of the non-reserved forest. Moreover, the practice of selective logging, which concentrates on a few choice species, has also contributed to deforestation and degradation. Furniture manufacturers complain that Aporosa, the prized white teak, has become extinct in Ghana.

"THIS mine will bring in new revenue, foreign investment and help the whole area to develop," said President Jerry Rawlings at the opening in February of the Idunapriem gold mine in Ghana's western region, marking the latest development in the industry's continuing expansion.

No sector of Ghana's economy provides such striking evidence of the benefits of economic reform as the country's thriving gold mines.

Liberalised mining investment laws have attracted \$900m of new capital and helped to quadruple the country's gold production to 1m ounces a year since 1986, putting the mineral above cocoa as Ghana's leading export.

Export earnings this year are expected to exceed \$375m, compared with \$343m last year, and \$304m in 1991. Furthermore, if the Ministry of Energy and Mines plans are fulfilled, production will double to 2m ounces a year by 1997.

Central to the revival of the sector has been the Minerals and Mining Law of 1986 which brought in a new wages and income policy for mine workers, coupled with the efforts of the Minerals Commission which liaises with foreign investors. In the privatisation programme under way the government hopes to raise \$100m by reducing from 55 per cent to 35 per cent its stake in the Ashanti Goldfields Corporation (AGC), a joint venture with Lonrho, the British conglomerate.

Gold is now the biggest earner

## Production quadruples

Ashanti is one of the richest gold deposits in the world; it accounts for nearly 80 per cent of Ghana's gold exports. It has a total concession of 256 square kilometres; its deposits are extensive and high-grade. AGC's reserves average eight grammes a ton, helping to keep production costs within the lowest 15 per cent in the world.

An independent assessment of Ashanti's existing and proposed operations, carried out by James Askew Associates of Perth, Australia, has established proven and probable reserves of 9.1m ounces of gold, or a 10-year mine life. The International Finance Corporation has helped to syndicate a \$140m loan, beginning a 10-year investment worth about \$650m to develop Ashanti.

The Ashanti Mine Expansion Programme (AMEP) is designed to raise its output to 1m ounces a year by 1996, drawing on the latest techniques in sulphide mining and metallurgy in order to develop large sulphide deposits adjacent to some existing deep mine and open pit operations.

Meanwhile the gold deposits of the western region of Ghana are also attracting investors. The Idunapriem mine, about 300 kilometres west of Accra, is owned and operated by Ghanaian Australian Goldfields (GAG), a joint venture between Golden Shamrock Mines (88.95 per cent), the International Finance Corporation (20 per cent) and the Ghanaian government (10 per cent).

Golden Shamrock is the Australian group controlled by Mr Owen Benton's Concorde group, based in Denver, Colorado, which trades 70 per cent of the world's uranium.

After an initial investment of \$10m by GAG, the International Finance Corporation connection helped the company to raise a \$55m loan from a syndicate made up of Swiss Banking Corporation, the Netherlands ING bank, the German and Dutch aid finance agencies DEG and FMO, and Ecobank, the West African regional trade bank. The mine began producing last September and is producing gold ahead of its target rate of

120,000 ounces a year, worth about \$46.8m at the mid-July 1993 price of about \$390 an ounce.

The new open cast mine contains an oxide ore body with about 2 ounces of gold per bulk ton and GAG expects it to yield about 1m ounces of gold by the end of this decade. Golden Shamrock hopes to use the GAG as a base for further mining ventures in Ghana - or elsewhere in West Africa.

A few kilometres from the site is the old Prestea mine, where Gold Fields of South Africa bought a controlling interest in January - following closely after another acquisition from the state authorities, the old mine at Tarkwa, by Newmont of the US. The Prestea mine now run by Gold Fields has larger (but much deeper) sulphuric ore deposits than Idunapriem, but under-investment had made the mine uneconomic for many years.

Although gold seems set to retain its leading role, diamond earnings will pick up, say industry officials. Output from the main producer, Ghana Consolidated Diamonds Ltd - about 150,000 carats in 1991 - is projected to rise five-fold over coming year.

Manganese exports remain below the 1974-75 peak of 838,000 tons, but rehabilitation of the Ghana National Manganese Corporation's mine has increased production from 158,000 tons in 1983 to 364,000 tons in 1990.

Paul Adams

## Scanstyle: furniture from the forest

IF GHANA is going to make a go of export-led growth, it will need more companies like Scanstyle Mfm, a small furniture manufacturer working in the heart of Ghana's tropical hardwood forest.

Scanstyle's main contact with the outside world is through a crackly radio transmitter. The national electricity grid only reached the factory in Mfm last year. Yet Scanstyle is responsible for more than 90 per cent of Ghana's furniture exports. Its earnings are small - \$6m last year - but growth potential is huge.

The company's turnover has grown six-fold since 1983. And in added value terms, Scanstyle's furniture earns five times as much as the same volume of unprocessed timber. So why aren't more loggers

branching into the furniture business? "Because," says Mr Kwabena Pepera, the company chairman, "logging earns more money with less risk. If a consignment of furniture is rejected, you risk bankruptcy."

Many Ghanaian companies find it difficult to export because they cannot meet the quality standards demanded by overseas customers, he adds.

Local manufacturers often have little knowledge or experience of marketing abroad.

Ghana is not yet geared to providing pre-export finance, or long-term capital for investment in plant and machinery. Scanstyle shows how obstacles were overcome. The company was set up in 1983 by a Norwegian who spotted an opportu-

nity to use the efforts of a large sawmill in Mfm. In the early 1980s, frustrated by government curbs on his business, he decamped to Singapore, leaving a knowledge of the European furniture market and the quality standards required.

"Under the old government controls," Mr Pepera recalls, "we could not export a single chair. But we had Lebanese traders coming from the Ivory Coast and paying cash to smuggle our goods through the jungle." Life for exporters has become easier. Export and import licenses have been abolished; foreign exchange controls scrapped; and the cedi has been devalued, making Ghanaian exports more competitive abroad.

With the help of a \$400,000

Japanese loan, the company has bought computer controlled lathes from Italy which will allow it to tackle more complex furniture.

It trains its personnel abroad, and has opened a sales office in London to be closer to its clients. Scanstyle's biggest market is the UK, where its garden furniture and chairs in tropical hardwoods - white teak, mahogany and other species with mysterious African names - are highly prized. The company also exports to Germany, Italy and Ireland. It has not been able to break into the American market because it cannot yet match the size of the orders. "Our main constraint is a shortage of raw timber," Mr Pepera explains.

Leslie Crawford



### DIVESTITURE IMPLEMENTATION COMMITTEE GOVERNMENT OF GHANA SOME STATE ENTERPRISES FOR SALE IN GHANA

#### ENTERPRISES FOR SALE

##### 1 KUMASI CITY HOTEL

Built in 1964 and extended in the 1970s, this 169 room hotel is in Kumasi, the second largest city in Ghana, and the heart of the Ashanti culture. The region is also the centre of the country's gold and timber industries.

##### 2 AFRICAN TIMBER AND PLYWOOD

Situated in the centre of Ghana's rain forests at Samreboi, this is one of the largest timber processing operations in Ghana. The plant was rehabilitated in 1988 and has a capacity of 192,000 m3 a year. The site is well serviced by utilities.

##### 3 GIBOC PHARMACEUTICAL

A recently modernised facility with a capacity of 1.64 billion tablets, 2 million capsules and 5.8 million ampoules annually. Government will retain a minority interest for later sale through the Ghana Stock Exchange.

##### 4 GHANA RUBBER ESTATES AND BONSA TYRE FACTORY

The tyre plant has a rated capacity of 450,000 tyres a year but is currently operating at 80,000 tyres a year. All the rubber, accounting for 40% of the final product is grown in Ghana principally at the Ghana Rubber Estates. The estates and factory may be purchased separately.

##### 5 TEMA FOOD COMPLEX

TFC is an integrated group of factories comprising, a flour mill, a feed mill, a fish mill, a fish smoking section, a fish cannery plant, and a cold store. The flour mill is undergoing rehabilitation.

Deadline for receipt of bids 30 September 1993

#### INVESTMENT PROCEDURES

Except where a specific mode of divestiture is indicated, prospective investors may indicate their preferred divestiture option (outright purchase, joint venture, lease etc). Investors obtain title to assets free of all liabilities and the right to hire staff of choice.

Interested investors may obtain application forms to register their interest from the Secretariat of the Divestiture Implementation Committee (DIC) located at No F35/5 Ring Road, near Omari Bookshop, North Labone, Accra. Tel 773049 and Fax 773126. (Details of requirements for a formal proposal will be provided to investors upon registration of interest). There is a Registration Fee of £200 which will entitle the investor to a Letter of Access to the enterprise, an

Independent Valuation of the assets being sold, and a Selling Memorandum describing the business.

The Government and the DIC strongly support the development of the Ghana Stock Exchange through the divestment process. Correspondence should be submitted to the DIC, addressed to:

The Executive Secretary,  
Divestiture Implementation Committee,  
P O Box C102, Cantonments, Accra, Ghana.  
Telephone: 021-773049,  
Telex: 2516 DIC Gh. Fax: 021-773126

#### SCHEDULED FOR PRIVATIZATION IN THE NEAR FUTURE

Investors are also advised that the following enterprises have been scheduled for divestiture and are expected to be advertised shortly:

##### 1 GHANA POSTS AND TELECOMMUNICATIONS

The postal service is being separated and the telecommunications operation is programmed for divestiture.

##### 2 COCOA PROCESSING FACTORIES

The factories at Tema and Takoradi process about 1,500 tons of cocoa beans each a month producing cocoa butter, liquor and cake. The chocolate factory at Tema has a rated output of 2,200 tons of chocolate, 210 tons of pebbles and 2,000 tons of instant cocoa powder.

##### 3 TEMA OIL REFINERY

The refinery has a processing capacity of 28,000 barrels per day (bpd) and was extensively rehabilitated in 1988. The output does not meet Ghana's needs, leaving substantial scope for expansion.

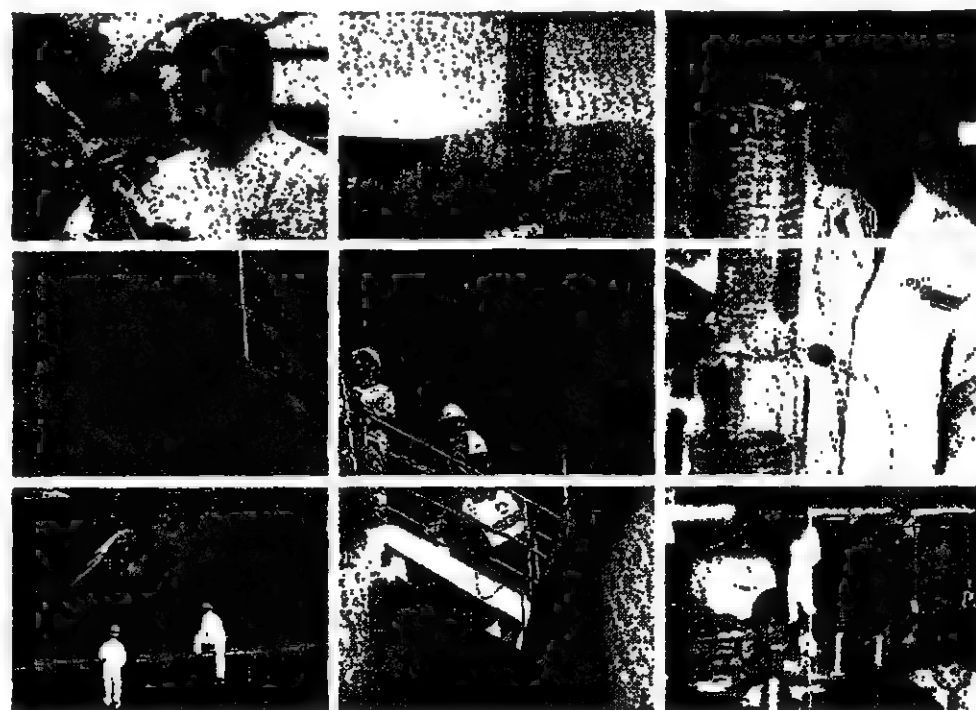
##### 4 GHANA AIRWAYS

The national airline is one of the major West African airlines, flying to Europe, East and Southern Africa and throughout West Africa. Government is being advised on the possible separation of Flight Catering Services and Ground Handling and other pre-advertising issues.

##### 5 STATE SHIPPING CORPORATION

The well known Black Star Line has four vessels and strategically located buildings at Tema and other related assets.

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## GHANA 4

Edward Balls examines some harsh realities for the future

## Hopes may be too high

GHANA is perhaps the only African country to have accepted the spirit, as well as the letter, of the World Bank's list of market-based reforms over the past decade. But after 10 years of structural adjustment, the country has yet to receive the promised rewards.

At current growth rates (5 per cent for GDP, 3 per cent for population) it would take Ghana 20 years to join the ranks of lower middle-income countries. Only then would the average poor Ghanaian reach the poverty threshold - defined as two-thirds of today's average consumption per head.

To succeed, the World Bank's African role model must make the leap into accelerated growth and wean itself off foreign aid by attracting much more of the private and foreign direct investment that Africa so desperately needs. Failure to do so would mean, rightly or wrongly, a damaging blow to the Bank's reputation in the continent.

Little wonder that understandably nervous World Bank officials hurry to damp down expectations about Ghana's future prospects while stressing the progress that has already been made. Yes, they acknowledge, Ghana remains a very poor country (average incomes averaged around \$400 per head) and relies heavily on

foreign assistance. But Ghana's economic performance has still been impressive over the past decade relative both to the previous 10 years and the rest of the continent.

Real incomes per head have grown by an average 3 per cent a year since 1983; they fell by 0.4 per cent a year in the decade before the structural adjustment programme began. GDP growth has averaged 5 per cent a year since 1983; in sub-Saharan Africa the average is 2.1 per cent.

These growth rates occurred while Ghana's terms of trade have fallen relentlessly. While gross aid flows have averaged 8 per cent of GDP a year, adjusted for Ghana's large terms of trade losses the net resource transfer was less than 5 per cent of GDP at its peak, compared to a sub-Saharan African average of 8 per cent.

In short, World Bank and International Monetary Fund officials argue, Ghana confirms that structural adjustment is a necessary condition for successful development. Low inflation, a realistically valued exchange rate, reduced tariff barriers and the removal of numerous restrictions on investment, have together delivered much faster growth.

Ghana's experience, they argue, also undermines some common myths about adjustment. Does structural adjust-

ment require a smaller public sector? Fewer civil servants, perhaps, but the share tax revenue in GDP has tripled since 1983. Does adjustment hit the poor harder? The sketchy evidence, according to Mr Ravi Kanbur, World Bank mission chief in Accra, suggests that, on average, adjustment has reduced the incidence of poverty by shifting resources from the richer urban areas to the poorer, rural regions.

But Ghana also demonstrates that successful structural adjustment is insufficient for an acceleration of economic growth and a rapid fall in poverty. The obstacles to an acceleration in economic growth to the levels achieved by the east Asian developing economies over the past two decades will not be rectified by low inflation and liberalisation alone.

Ghana lags far behind its east Asian competitors in all areas of social and physical infrastructure, as the charts show. 80 per cent primary school enrolment is high by African standards but low compared to east Asia. And the

capacity of Ghana's civil service to implement reforms remains disappointing, as Kwesi Botchway, the finance minister, readily admits. Most worrying are the low level of private sector investment and the small share of manufacturing investment in GDP. Last year's balance of payments does, in fact, suggest that flight capital may be beginning to return. But inflows of foreign direct investment remain low.

Senior government ministers call for a new "agenda of activism" to address these deficiencies. Mr Botchway stresses the need to attract foreign investment to supplement Ghana's small pool of domestic private savings and trumpets the new investment code. He talks of packages of tax cuts and tariff concessions to attract particular foreign investors.

Meanwhile the Bank of Ghana is using all its powers of moral suasion to encourage the banking sector to bias its foreign exchange operations towards export-orientated business and offer cheaper term

loans for new investments. The Bank has made it clear, says one banker in Accra, that "importing second-hand cars is not consistent with sustainable development."

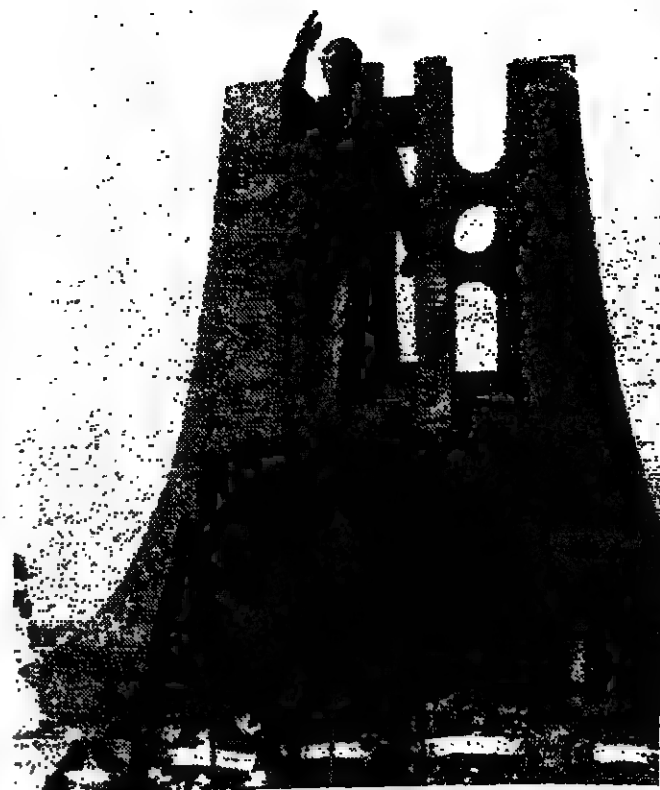
But the government appears undecided about whether to bow to pressure for infant industry protection, from members of the private sector advisory group, although the World Bank and IMF counsel strongly against it. "Free trade means efficiency but it can also destroy domestic industry," says one senior minister.

Mr Ishmael Yanson, chairman of Unilever Ghana, does not believe in protectionism. "It breeds corruption and inefficiency," he says. "Most companies in Ghana asking for protection grew up in a shortage economy and have never had to justify their investment." The missing ingredient is confidence. Senior ministers privately voice frustration at President Rawlings's occasional outbursts against particular private companies. Ghana's experience suggests

some lessons for the rest of sub-Saharan Africa. Bank, fund and government officials list some possible reasons for Ghana's success:

- **Ownership:** the Economic Recovery Programme was identified with the government, not the donors, and ministers took responsibility for mistakes as well as successes - at each stage, they worked hard to persuade interest groups that reforms were in their interests;
- **Sequencing:** reforms were carefully staggered - the devaluation occurred well before imports were liberalised - and not pushed through faster than the government's capacity limitations allowed;
- **Aid:** donor support was substantial and became available from the outset of the programme before the government had established a track record.

But the missing element is politics. The military has consistently tried to align its interests with those of the rural poor rather than the richer urban elite who probably stand to lose more from adjustment in the early stages. And the government was able to build

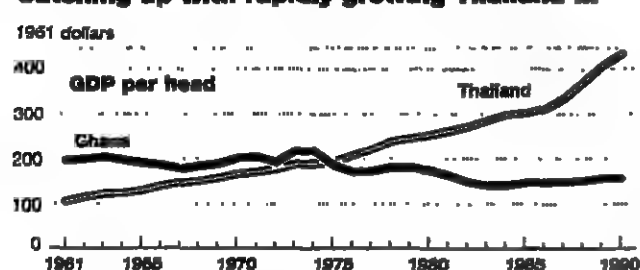


A statue of Ghana's founding father, Kwame Nkrumah, stands in Accra.

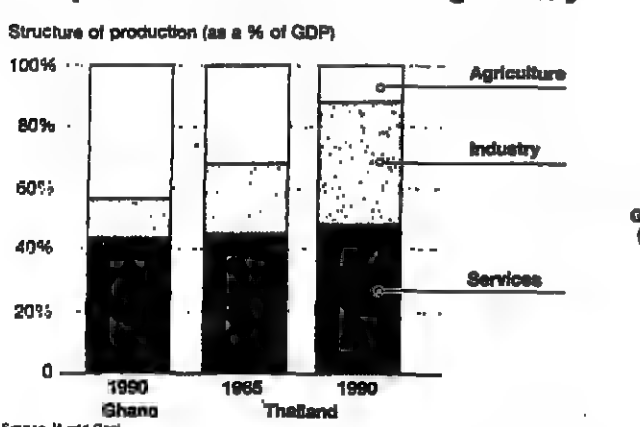
an impressive track record, over a 10 year period, before putting its popularity to the test through last autumn's elections. An election in 1985 or 1988 may well have delivered a very different result.

But the Rawlings government won the right to continue for a further term of four years, in an election which most western observers judged to be free and fair. That is perhaps the most encouraging sign yet that structural adjustment might work in Africa.

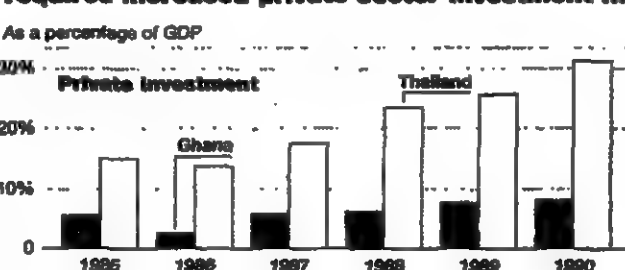
## Catching up with rapidly growing Thailand ...



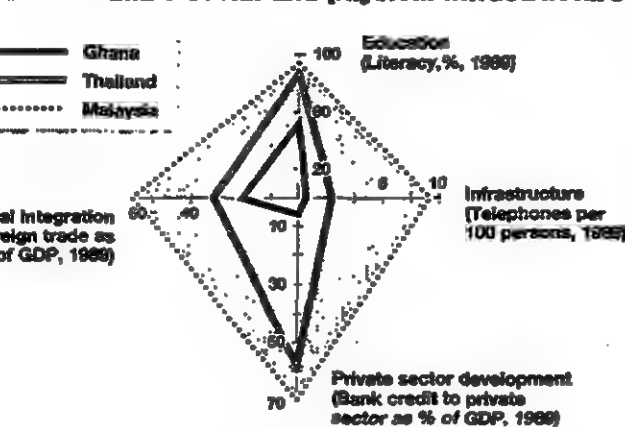
## In export-orientated manufacturing industry ...



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## and in Ghana's social and physical infrastructure



## Politics: Leslie Crawford reviews the transition to democracy

## President's new clothes

FOR 11 years, Flight-Lt Jerry Rawlings, Ghana's military ruler, wore combat fatigues to work. Since he won a contested presidential election in November, Mr Rawlings wears suits. The president's new clothes reflect the changes in Ghana since its transition to democracy: all form and little content.

The country has the same head of state, key government ministers and ruling party as before. Economic and foreign policy remain unchanged. Only two out of the 200 members of the new parliament have previous legislative experience. And the opposition parties, which boycotted parliamentary elections in December, are almost as voiceless now as they were under military rule.

Like most single-party regimes which open up, there is little appreciation within Mr Rawlings' National Democratic Congress (NDC) of the distinction between ruling party and state. The president's chief adviser, Mr FV Obeng, defends political continuity, arguing that the electorate voted for more of the same. "We have no wish to experiment with the future of Ghana when we have tried and tested hands in government," he says.

President Rawlings' conversion to democracy was sudden but thorough. In a year a consultative assembly had drafted a new constitution, overwhelmingly endorsed in a referendum in April 1992. The ban on party politics was lifted in May 1992 and presidential elections were held in November.

An inflated and inaccurate electoral register probably helped Mr Rawlings more than his opponents. Professor Adu Boahen, who stood for the conservative New Patriotic Party (NPP) is still bitter. "The election was rigged," he says. "Every rule in the game was broken. Votes were miscounted, our supporters were intimidated. The whole thing was riven with fraudulent, disgraceful practices."

The opposition documented the alleged election irregularities in a report entitled "The Stolen Verdict". But they did not think it worthwhile to contest the results in court.

Instead, they boycotted the parliamentary contest in December. This allowed Mr Rawlings' NDC to sweep the field. It won 189 out of the 200 seats in the single-chamber legislature. Other pro-Rawlings parties won nine seats. Two independents were elected.

The opposition has devoted so much soul-searching to the pros and cons of the boycott, that little real analysis has been expended on the weaknesses of their presidential campaign. Professor Boahen's party of businessmen and intellectuals are contemptuous of the "arrivistes" who run Rawlings' NDC. The feeling is mutual. But on economic policy there is little to choose between them.

So the election was fought on personalities, and here President Rawlings' dynamism and rhetorical skills gave him the upper hand. "It is regrettable that we are not in parliament," says Mr Bernard Joao da Rocha, the NPP chairman. "But we were trapped between two evils: of not having people in parliament or ignoring the public outcry against the fraudulent presidential result."

The opposition has divided into two camps. The "hawks", led by Professor Boahen and Mr Komla Gbedemah, one of the

grand old men of Ghanaian politics, refuse to confer legitimacy on the new government and will have no truck with it. Secretly, they hope the government will fall. The "doves", led by Mr da Rocha, desperately want to establish a *modus vivendi* with President Rawlings and his parliament.

The new legislature is also keen to broaden its appeal by giving the opposition a voice. The NPP was invited in April to present its views on the 1993 budget. But Mr da Rocha is all too aware that the boycott has placed his party at the mercy of parliament's goodwill. The opposition says it has reason to doubt the government's com-

mitment to democracy. Parliamentary groups have not yet been dismantled. President Rawlings hounds opposition businessmen with sporadic outbursts. And new laws keep appearing, backdated to early January, before the new government took office.

The opposition suspects that Mr Rawlings' government continues to legislate by decree, backdating the laws to bypass the new parliament. But Mr Obeng says the late appearance was because of "printing problems at the government presses". He admits, however, that the outgoing military government crammed a lot of legislation into its final days.

Even from self-exile, the opposition promises to be the "guardians of the constitution". Its main demand is a new electoral register backed by identity cards to ensure a level playing field in the next elections in four years' time. They are not daunted by the fact that President Rawlings has the constitutional right to stand for re-election.

"When your opponent hits you below the belt and the referee pretends that he doesn't see, do you quit boxing? Or do you prepare yourself better for the next bout?" Mr da Rocha asks. "We survived proscription for 11 years. Another four won't be our undoing."



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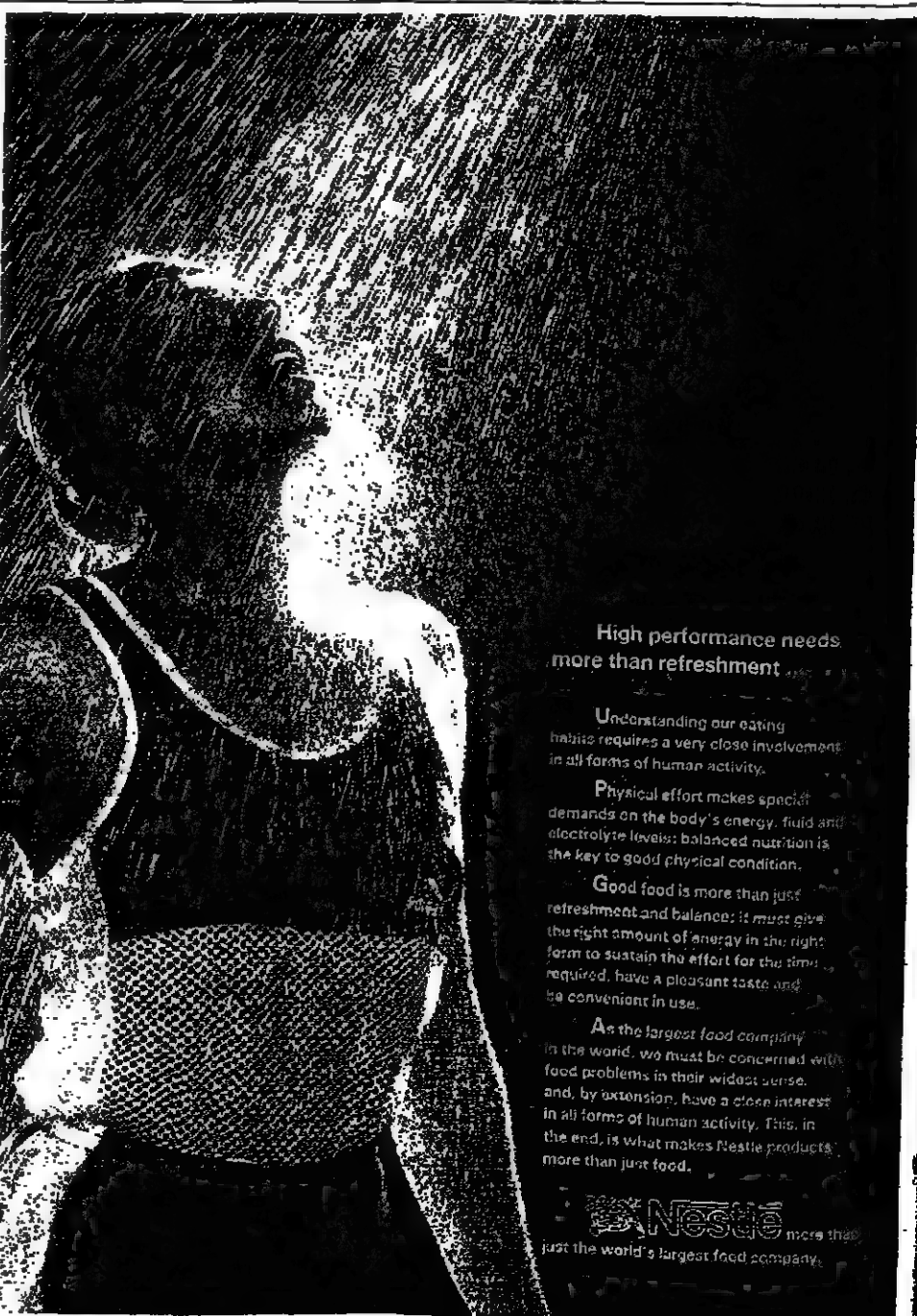
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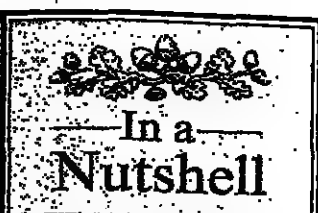
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## MANAGEMENT: THE GROWING BUSINESS



## Falling down on health and safety

Three-quarters of British companies are failing to comply with new health and safety legislation six months after it came into force, a survey by the Eagle Star insurance group showed.

The survey of health and safety managers from 185 companies – one-third employing fewer than 100 people – revealed that only 23 per cent had fully implemented the changes, which covered areas such as the use of visual display screens and the manual handling of loads. Forty-four per cent of companies had yet to comply with the Control of Substances Hazardous to Health regulations, which came into effect in 1988, Eagle Star said.

## Pick your angel from the database

Wealthy private investors – business angels – might be persuaded to back small firms if only there were some way of bringing the two together. This is the thinking behind a feasibility study which is being undertaken by National Westminster Bank to see if a national database of angels could be set up. The bank is carrying out a pilot study in the north-west of England and the Thames valley to see how much time and money investors would be prepared to commit to small firms.

Potential investors should contact Peter Fox, National Westminster Bank, Fenchurch Lane, London EC3M 4PB. Tel. 071 374 3784.

## Wake-up call for rollover relief

Capital gains tax rollover relief granted to entrepreneurs in the last UK Budget has been extended to take in shareholders in quoted companies as well as those with shares in private businesses. Before the last Budget, tax relief had been available to passive investors in private companies but not to the

managers. The British Venture Capital Association felt this still discriminated against entrepreneurs who had taken their companies to the stock market, and lobbied further. An amendment to the Finance Bill, expected to become law shortly, extends relief "to gains arising from the sale of quoted shares where the qualifying entrepreneur held the shares when they were unquoted".

## Acknowledging the growth factor

A total of 11,600 companies with a combined turnover of £17.5bn make use of factoring and invoice discounting in the UK, according to a new survey.

But the potential market may be as much as 10 times as big, according to Michael Bickers, a financial adviser. There are 36 active factoring companies and three which are financing existing clients but no longer taking on new business.

The industry continues to be dominated by the 11 members of the Association of British Factors and Discounters which represent 90 per cent of the total. Members of the Association of Invoice Factors account for just under 2 per cent and non-association factors for more than 8 per cent.

"Part of a larger report entitled Factoring in the UK is published shortly. From BCR Publishing, 108 College Road, Bromley, Kent BR1 3PF. Tel. 081 466 6987. Available in two versions: £195 or £285.

## Large supply of short-term plans

Only just over half of small business owners – 54 per cent – draw up a formal business plan when they start up, according to a survey by Barclays Bank's Business Planning Bulletin.

The most common reason for preparing a plan was to obtain bank finance, mentioned by 36 per cent; to formalise ideas (34 per cent); and to assess the viability of the venture (24 per cent). Only 19 per cent used it to monitor their progress.

Businesses which did plan ahead still took a short-term view. Twenty-three per cent planned one year ahead and 5 per cent planned two years ahead. Sixty-one per cent planned only up to one month ahead.

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Louise Harvey, sales manager of Wren Giftware, says she usually seals the signing up of a new agent with a handshake and a brief letter of confirmation. Normally, the only points of detail to be agreed are the territory to be covered and the level of commission.

From January 1, when new European Community-inspired legislation comes into force in the UK, she will have to take a lot more care in drawing up agency agreements. Wren, based in Stoke on Trent, employs 40 people making fine bone china coffee mugs. It has turnover of £1.3m and uses seven agents in the UK and three elsewhere in Europe.

On that date, the UK and Ireland will join the rest of the Community in applying far more detailed rules governing agreements between companies (principals) and their agents. The new regulations apply not just to agents in other EC countries but also to those in the principal's home country. They do not apply to agents outside the EC.

The new rules borrow heavily from legislation in Germany, where agents have been able to use their contracts as security for loans and where considerable compensation is available if an agreement is terminated. The result will be to strengthen the legal position of agents and give them a far greater degree of security.

The new rules increase the responsibilities of companies using agents as well as the financial consequences of mishandling the relationship.

"This is a very significant change," says Ian Campbell, director-general of the Institute of Export. "It is a move from a freely negotiated arrangement between two willing parties to a structure where the rules are set in law."

Previously the two sides could agree terms between them, subject to the rules of common law, and if a dispute went to law each case was decided on its own merits. Under the new rules the rights and duties of both sides are specified more precisely. They cannot be written out of contracts.

Since agents provide a relatively trouble-free means of expanding into new geographical markets, the new rules have caused considerable concern among many businesses and their trade associations.

Two seminars arranged by the Giftware Association to explain the new rules attracted more than 600 people, says Isabel Jones, association secretary.

"The change-over will cause problems, especially in our industry, where the companies are quite small," she says. "But if people handle it correctly, the new rules should only amount to good business practice."



Louise Harvey: from next year, a handshake and a brief letter will no longer be enough when she signs up an agent

## New rules for old agreements

Deals between companies and their agents will be subject to new EC legislation, writes Charles Batchelor

The precise form the new rules will take has still to be finalised and the Department of Trade and Industry has only just finished consulting businesses about its second draft of the commercial agents regulations. The final text will be decided in the next few months.

Uncertainty about their impact is reflected by the fact that there has been little response to the department's request for views on the likely cost of compliance.

Businesses must review their current arrangements and if necessary replace them with more suitable ones before the new regulations come into force, solicitors Fox Williams advise in an explanatory booklet.

The main changes to occur are: Agents will have the right to commission on sales completed within a reasonable time after the agency contract has been ended, when the transaction was mainly the result of the agent's efforts.

The new regulations do not set a period during which commission can be claimed so it makes sense to agree a period in the contract to avoid disputes, Fox Williams suggest. At present most companies

have very vague arrangements.

Principals will no longer be able to delay paying their agents merely because they have not yet been paid.

Precise new rules have been drawn up to cover the termination of contracts. Either party must give written notice of not less than one month in the first year, two months in the second year and three months in the third and subsequent years.

The two sides may agree longer periods but the principal may not set himself a shorter period than applies to the agent.

Provided the agent has not breached the terms of his contract, companies become liable to pay compensation to their agent to cover losses and costs resulting from the termination of the contract.

Compensation must take into account the commission the agent might have earned and costs and expenses which he has not been able to recover.

"It will not be so easy to close down an agreement on a non-performing agent," comments Martin Egan, head of the Essex Export Agency, a consultancy. "It could make it difficult dealing

with a lazy or unscrupulous agent," notes Hazle Boyles of Hazle Ceramics, a Brentwood, Essex-based manufacturer of "collectibles" with £250,000 of sales. "You could end up paying double if you take on a new agent."

A danger for the smaller company is that the more formal framework may prompt an increase in the number of legal disputes. Small firms may be unable or unwilling to meet these costs, so they must be careful in their choice of agents and in the way they draw up agreements, the experts advise.

The Giftware Association has commissioned a model agreement from its lawyers to help its members but principals may still need to consult a lawyer.

"Companies will have to become more professional in drawing up contracts," says Campbell. "Too often export decisions are left to junior staff. Senior management is happy until something goes wrong. This is an area of risk management to which companies will have to pay more attention."

The Commercial Agents Regulations, Fox Williams, City Gate House, 35-45 Finsbury Square, London EC2A 1JU. Tel. 071 638 8000. Nine pages. Free.

## Coping with recovery

Managing the upturn could prove just as demanding as surviving the recession. Businesses frequently run into cash-flow problems when orders increase.

London accountants Blick Rothenberg suggest a 10-point programme for managing recovery.

Do not try to increase turnover before strengthening your financial position. Speak to your bank manager to ensure that you have adequate facilities. If the bank will not help, consider alternatives such as factoring.

Carry out credit checks on your customers. If they become overstretched they may pull you down with them. Review credit limits; use a commercial credit rating agency; chase overdue accounts.

Draw up cash-flow plans based on different levels of future sales so that you can see the implications.

Be careful about new spending. It may be worth paying comparatively high charges on a short-term lease of a piece of plant in case you need to cancel quickly.

Do not be tempted to buy expensive plant, using the 40 per cent first-year tax allowances available until October 1993, unless you had intended to purchase it anyway.

The cash-flow benefits could take up to 21 months to come through and you may anyway have "tax losses" available as a result of the recession.

Keep staff levels low and use temporary workers where possible.

Review payroll costs each week or month.

Monitor the key financial numbers such as order book, sales and debtors each week. Do the same for your stock levels, purchases, creditors and bank balances. Keep a regularly updated three- to four-month cash-flow projection on your desk.

Most businesses do not need to prepare profit and loss accounts more than once a quarter. Save time and money by reducing needless paperwork. The weekly information described above will be sufficient.

When you have dealt with these immediate issues, draw up a three- or four-year business plan.

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The closing date for formal expressions of interest as outlined in the information pack is 3 September 1993.



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For further information, please contact Stuart Duplock or Dipika Shah at Coopers & Lybrand, 1 Embankment Place, London WC2N 6NN. Telephone: 071 213 1239. Fax: 071 213 1330.

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For further details, please contact Alistair Grove or Ian Walker at Coopers & Lybrand, Midland House, Nottel Street, Plymouth, Devon PL1 2EJ. Telephone: 0752 668888. Fax: 0752 604108.

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For further details, please contact the Joint Administrative Receiver, SP Holgate at Coopers & Lybrand, 9 Greyfriars Road, Reading, RG1 1JG. Telephone: 0734 597111. Fax: 0734 807703.

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(in Administrative Receivership)

The Joint Administrative Receivers offer for sale the business and assets of J. Alsford Limited.

## Principal features of the business include:

- Timber Importer and merchant of timber and timber related products
- Network of 23 retail outlets in the South East of England
- 1992 unaudited turnover £10 million
- Wharfedale and warehousing facilities on 12 acre site at Rye, East Sussex
- All enquiries to Joint Administrative Receivers of J. Alsford Limited, Ernst & Young, Becket House, 1 Lambeth Palace Road, London SE1 7EU. Tel: 071-931 3129, 071-931 3132. Fax: 071-931 0425.

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## CONTRACTS &amp; TENDERS

INVITATION FOR REGISTRATION  
NAMIBIA  
HARDAP DAM REHABILITATION

Lahmeyer/VWL, a joint venture between Lahmeyer International GmbH of Frankfurt, Germany and VWL Namibia Ltd., of Windhoek, Namibia, on behalf of its Client, invites the registration of experienced contracting organisations who wish to tender for the rehabilitation of the asphalt concrete lining of the Hardap Dam, near Mariental, Namibia.

The rehabilitation works comprise the removal of approximately 70 mm, by mechanical milling, of 25,000 square metres of existing deteriorated asphaltic concrete lining, and its replacement with a new asphaltic lining. Ancillary works may include the repair and/or replacement of movement joints and seals, and the reinstatement of a portion of the dam crest access road by using recycled milled-off lining material as aggregate/fill.

Due to the expected onset of the rainy season in December 1993/January 1994 and the resultant possible inflow of water into the reservoir, the works will have to be done within a very limited time frame. In addition and to mitigate the effect of early rains and the possible rise of the reservoir level, it is proposed that contractors be prepared to consider the payment work to be done along horizontal lines, commencing at the water level. Time will be of the essence, and contract conditions will be prepared reflecting the importance of the timely completion thereof.

The works are to be jointly funded by the Government of the Republic of Namibia and the German Development Bank (Kreditanstalt für Wirtshaftsbank), and any Namibian or International Contractor or Joint Venture Organisation who meets the eligibility requirements will be permitted to tender.

The application for registration to confirm the tender documents must include, as far as is obtainable for this purpose from either of the addresses below, a resume of the appropriate and related experience of the organisation's staff, plant and equipment resources and the technical and financial capability of carrying out such works. The completed documents must be delivered to the same addresses no later than 17:00 local time on August 2nd, 1993.

The Project Manager - Hardap Dam Rehabilitation Works  
Lahmeyer/VWL Joint Venture  
at either:

PO Box 22800  
Windhoek  
NAMIBIA

Fax: 00264-61-3 35 95

Department B24  
PO Box 71 06 61  
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- For further information please contact the Joint Administrative Receiver, Chris Hill, or Jeanette Makings, Ernst & Young, Cambridge House, 26 Tombland, Norwich NR3 1RH. Tel: 0603 660482. Fax: 0603 614430.

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BY ORDER OF THE JOINT ADMINISTRATIVE RECEIVERS  
K. D. GOODMAN FCA & P. MONJACK FCA  
IN THE MATTER OF

## ACTION TOOL HIRE LIMITED

The joint Administrative Receivers offer for sale the assets and goodwill of this well established supplier of plant and equipment to the Construction Industry.

The company operates from leasehold premises in London NW10.

Turnover for the last twelve months was approximately £1/2 million.

Further enquiries should be addressed to the office of:  
Leonard Curtis and Co. Chartered Accountants  
30 Eastbourne Terrace London W2 6LF Tel: 071-262 7700 Fax: 071-723 6059 REF: 3/003

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REPEAT INVITATION TO TENDER FOR THE HIGHEST BID  
for the Purchase of the assets of "VOMVICRYL SOCANON, INDUSTRIELLE ET COMMERCIALE DES FIBRES ACRYLIQUES" of Athens Greece

"ETHNIKI KEPHALEOU S.A. Administration of Assets and Liabilities" of 1, Skoulionou Str., Athens Greece, in its capacity as Liquidator of "VOMVICRYL SOCANON, INDUSTRIELLE ET COMMERCIALE DES FIBRES ACRYLIQUES" a company having its registered office in Athens, Greece (the "Company"), which is presently under the status of special liquidation according to the provisions of article 46a of Law 1892/1990 (as supplemented by article 14 of Law 2000/1991),

announces a repeat call for tenders

for the highest bid by submission of sealed binding offers for the separate purchase by public auction (the Auction) of the following group of assets of the Company.

## BRIEF INFORMATION:

The company was established in 1973 and was in operation until 1990 when it was declared under liquidation. Its activities included the production, and trading of every type of fibres and textiles. The company is not in operation, neither is any personnel being employed.

## GROUP OF ASSETS OFFERED FOR SALE:

1. Plant in Avlaki Fthiotida (along Lamia-Volos National Road), consisting of buildings of 23,296 m<sup>2</sup>, standing on a plot of 190,718 m<sup>2</sup> and containing machinery, mechanical equipment, furniture and other equipment. The company's registered name, etc. are also being offered for sale.

## OFFERING MEMORANDUM - FURTHER INFORMATION:

Interested parties may obtain an Offering Memorandum in respect of the Company and the assets thereof and any further information, upon signing a confidentiality agreement.

## TERMS AND CONDITIONS OF THE AUCTION

1. The Auction shall take place in accordance with the provisions of article 46a of Law 1892/1990, the terms and conditions set forth herein and the "Terms and Conditions of Sale" contained in the Offering Memorandum. Such provisions and other terms and conditions shall apply irrespective of whether they are mentioned herein or not. Submission of binding offers shall mean acceptance of such provisions and other terms and conditions. Submission of offers in favour of third parties to be appointed at a later stage shall be accepted under the condition that express mention is made in this respect upon the submission and that the offeror shall give a personal guarantee in favour of such third party.
2. Binding Offers: Interested parties are hereby invited to submit binding offers, not later than the 24th August 1993, at 11.00 a.m. hours, to the Athens Notary Public Mr. Evangelos Drakopoulos, acting as substitute for the Athens Notary Public Mrs. Anna Tsafara, at his office in Athens, 19 Voukourestiou Street, 2nd Floor, tel. +30-1-361.57.32, +30-1-362.11.28. Offers should expressly state the offered price and the detailed terms of payment (in cash or in instalments, mentioning the number of instalments, the dates thereof and the proposed annual interest rate). In the event of not specifying a) the way of payment, or b) whether the instalments bear interest and c) the interest rate, then it shall be deemed that a) the offered price is payable immediately in cash, b) the instalments shall bear no interest and c) the interest rate shall be the legal rate in force (presently 31% yearly). Binding offers submitted later than the prescribed time limit, shall neither be accepted nor considered. The offers shall be binding until the adjudication.
3. Letters of Guarantee: Binding offers must be accompanied by Letters of Guarantee, issued, in accordance with the draft Letter of Guarantee contained in the respective Offering Memoranda, by a bank legally operating in Greece, to remain valid until the adjudication. The amount of the Letter of Guarantee must be drs. 350,000,000 (THREE HUNDRED AND FIFTY MILLION). Letters of Guarantee shall be returned after the adjudication. In event of non-compliance with the provisions and other terms and conditions referred to in paragraph 1 hereof, the Letters of Guarantee shall be forfeited as a penalty.
4. Submissions: Binding offers together with the Letters of Guarantee shall be submitted in sealed envelopes. Submissions shall be made in person or through a duly authorised agent.
5. Envelopes containing the binding offers shall be unsealed by the above mentioned Notary Public in his office, on the 24th August 1993, at 13.00 hours. Any party having duly submitted a binding offer shall be entitled to attend and sign the deed attesting the unsealing of the binding offers.
6. As highest bidder shall be considered the participant, whose offer will be judged, by 51% of the Company's creditors (the "Creditors"), in their absolute discretion, upon suggestion of the liquidator, to be in the best interests of all of the creditors of the Company. Mention is made that for the purposes of evaluating an offer proposed to be paid in instalments, the present value thereof shall be taken into account, which shall be calculated on the basis of a discount interest at an annual rate of 22% compounded yearly.
7. The liquidator shall give written notice to the highest bidder to appear on the date and place mentioned therein and execute the contract of sale in accordance with the terms contained in his binding offer and/or any other improved terms, which may be suggested by the Creditors and agreed upon. Adjudication shall be deemed to take effect upon execution of the contract of sale.
8. All costs and expenses of any nature in respect of the participation and the transfer of the assets offered hereby for sale shall be exclusively borne by the participants and the purchaser respectively.
9. The liquidator and the Creditors shall have no liability nor obligation whatsoever towards the participants in relation to the evaluation of the offers or the appointment of the highest bidder or any decision to reject or cancel the Auction or any decision whatsoever in connection with the proceedings of the Auction. The liquidator and the notary shall have no liability for any legal or actual defects of the assets. Submission of binding offers shall not create any right, power or claim from this invitation and/or their participation in the Auction against the liquidator and/or the Creditors for any reason whatsoever.
10. This invitation has been drafted in Greek and translated in English. In any event the Greek version shall prevail.

To obtain the Offering Memorandum and for any further information please apply to the Liquidator of the Company: "ETHNIKI KEPHALEOU S.A. Administration of Assets and Liabilities", address: 1, Skoulionou Street, 105 61 Athens Greece, tel: +30-1-323.14.84, fax: +30-1-321.79.05 (attention Mrs. Marika Frangaki).

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## BUSINESS AND THE LAW

## Banana move dismissed



EUROPEAN COURT

The European Court recently dismissed an application by the German government for interim suspension of the European Council's new regulation on the common organisation of the Community banana market (see FT, July 6 1993).

Germany brought the interim measures application in the context of its application for judicial review of the new rules governing trade in bananas with non-Community countries. The main case challenging the banana regulation continues on its way through the Court.

In parallel to the German case, banana companies - including Chiquita, Dole and Pacific Fruit, as well as banana importers, such as Anton Durbeck GmbH and International Fruchthandels-Gesellschaft Weichert & Co - brought applications for judicial review of the banana regulation and for interim measures.

Some also claimed damages against the Community, represented by the Council and Commission, for losses they say they will suffer under the new banana regime.

The banana regulation imposes a tariff-quota of 2m tonnes for bananas from non-traditional African, Caribbean and Pacific (ACP) countries and third countries. These are distinguished from ACP bananas traditionally given preferential treatment under the Lomé Conventions in France, Italy and the UK and which have duty- and quota-free access to the Community. Bananas given preferential treatment under Lomé Conventions are mainly dollar-area bananas grown in central and south America. Within the quota, both categories are liable to a duty of Ecu100 (£75) per tonne. Outside the quota, bananas from the non-traditional ACP and those imported from other third countries Ecu60.

The regulation also allocates the tariff-quota among commercial operators. From July 1 1993, the regulation restricts 30 per cent of the quota to operators that have traded in Community and/or traditional ACP bananas which are not themselves subject to any quota.

This leaves only 66.5 per cent of the quota to operators which have traded in non-traditional ACP and/or third country bananas. Only 3.5 per cent remains available to operators which entered the market as new entrants since 1992.

The ECJ decided on its own initiative to consider whether the private companies had standing to seek judicial review.

In a number of orders recently made publicly available, the Court dismissed all applications for judicial review on the grounds that the private companies could not show that they had sufficient standing, since they were not individually concerned by the regulation which was a legislative act of general application. They were affected only as members of the general class of economic operators to which the regulation applied.

The applicants, therefore, failed to show that their legal interests were affected in a way that distinguished them from others individually as if the regulation had been addressed to them.

On July 6, the Court president dismissed all interim applications by the banana companies on the grounds that the interim measures were linked to the main judicial review proceedings, which were inadmissible.

The ECJ said that the question of the standing of the private companies claiming damages was unaffected by the inadmissibility of the judicial review proceedings. It confirmed previous decisions that damages claims are separate and independent actions.

Consequently, the damages cases brought by certain companies claiming compensation for the damage caused by the adoption of the banana regulation will continue on their way through the Court just as the judicial review proceedings brought by Germany, C-265/93, *Pacific Fruit Company NV*; C-337/93, *Leon Van Parijs et al*; C-262/93, *Anton Durbeck C-276/93*, *Chiquita et al*; C-252/93, *Comafria et al*; C-253/93, *Pacific Fruit Company Italy*; and C-256/93, *Altanza et al*; C-257/93, *Simba SpA*; C-258/93, *COMACO srl*. *Orders of the ECJ and the president of the Court, June 21 and July 6 1993.*

BRICK COURT CHAMBERS, BRUSSELS

National legislators seldom keep pace with the development of international business. When they do attempt to address the subject, they often make things worse by drafting the legislation from a purely domestic view.

Fortunately, a large number of international organisations have made it their task to harmonise different systems of national business law and to provide national legislators with guidelines and models for new legislation.

It can take decades before government experts agree a legal text and when they do, businesses can wait many more years for ratification. Some organisations try to bypass this bottleneck by drafting standard terms and guidelines which businessmen can incorporate in their contracts.

However, the number of international organisations generating harmonisation, unification or new law projects has mushroomed. Excluding the European Community, which legislates for the benefit of its member countries, this new legal industry now consists of no less than 28 organisations, some of them highly specialised.

The United Nations alone has 12 different agencies in the legislative business. The most prolific of these are Unctad (trade and development), Uncitral (trade law) and Wipo (intellectual property), while Gatt (tariffs and trade) is the best known.

There are eight other inter-governmental organisations. The oldest and most productive is the Rome-based Unidroit, founded in Rome in the 1930s for the international unification of laws, while the most productive is the Paris-based Organisation for Economic Co-operation and Development (OECD).

A recent addition is the European Bank for Reconstruction and Development (EBRD). Although it has not provided the post-communist countries with much money, it is about to let them have a model law on secured transactions.

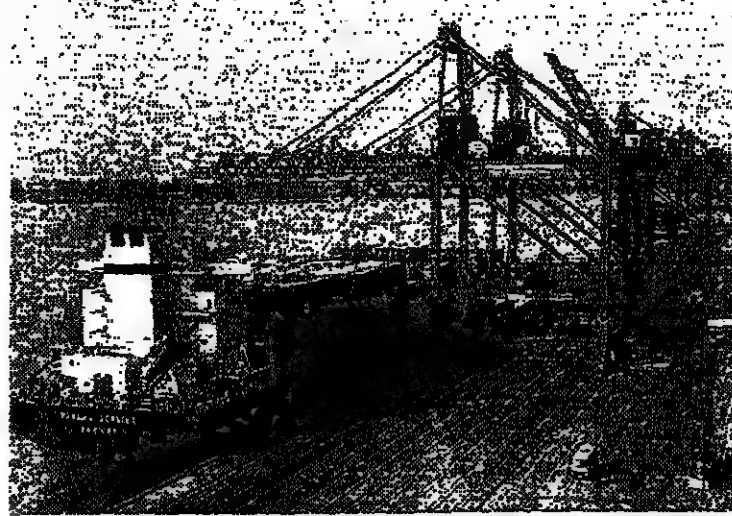
Finally, there are eight non-governmental international organisations. Half of these specialise in transport law: CIT (railways), CMI (maritime), IRI (road) and Fiata, which is a federation of freight forwarders.

Of the remaining four, the Paris-based International Chamber of Commerce (ICC) has done useful work on abbreviated contract terms, standard terms for several types of banking operations, and arbitration.

A survey of the current activities of these organisations, produced by Unctad on July 1, lists no fewer than 112 projects related to the harmonisation and unification of international trade law. A sampling of

## Sweet sound of harmony

Unifying business law is no simple matter, writes A H Hermann



International trade: one area receiving a great deal of legislative attention

this mountain of paper shows that there are great variations in its quality, usefulness and impact.

Work in the field of international transport law has had a great impact on business, notably in limiting the liability of carriers for damage or loss of goods. Unfortunately, the law is also rather difficult to understand, and national courts (of the maritime nations in particular) are often faced with difficult problems of interpretation.

The most successful, perhaps, is the ICC work on incoterms, the widely-used abbreviated contract terms system, while its standard terms for letters of credit have been adopted by most banks engaged in international business.

Unctad's work on arbitration rules and model law has profoundly influenced arbitration worldwide, particularly the English and Scottish jurisdictions and the Commonwealth. Mr Gerald Hermann, who steered these projects with unique enthusiasm, has been since promoted to Secretary General of Unctad.

By contrast, the other great product of Unctad, the 1980 UN Convention on International Contracts for the Sale of Goods (the Vienna Convention), is only the smallest common denominator of the often conflicting interests of the countries

which for 15 years participated in its drafting.

Its ratification by the UK has been opposed by the English legal profession for a variety of reasons, one of which is the unjustified fear that it could open the door to continental lawyers.

More valid objections to the convention are the absence of provisions on when the title to the sold goods should pass from the seller to the buyer, and its preference for enforcing specific performance rather than compensating a breach of contract by damages.

In spite of the fact that the UK has not yet ratified the Vienna Convention, UK traders may fall into these pitfalls whenever the contract is governed by the law of a country which has ratified it, as most of its trading partners have done.

Two ICC projects may help a little. One is concerned with updating the ICC Guide on the Retention of Title, the other with the drafting of a model contract which would fit the Vienna Convention.

The ICC published in 1991 a Model Commercial Agency Contract and is about to publish a Model Distribution Agreement. The amount of duplication and triplication that exists in this field is illustrated by the existence - in addition to an EEC directive - of an 1983

(Geneva) Convention and many valuable studies on commercial agency undertaken, and now suspended, by Unidroit.

Another Unctad product, the soon to be published Legal Guide on International Countertrade Transactions, is a valuable study of problems arising in different types of barter and buy-back deals, but could be much improved by bringing these problems in relation to specific national laws.

By providing a readily available model, the EEC harmonisation measures exercise a powerful influence on the international unification of law, sometimes infecting it with integrationist tendencies which are far ahead of the political readiness to accept them.

Such seems to be the case of the Unctad Draft Model Law on Procurement. Its Article 3 provides for equal opportunity and equal treatment of foreign participants in public tenders. This desirable objective is not yet acceptable to many countries where preference for domestic suppliers is well established by practice and legislation.

A model law, though it must not be too much ahead of what is politically possible, will be widely used only if it represents an advance on the legislation already in place.

The Unctad Draft Model Law on Procurement seems to follow the outmoded method of prescribing procedure instead of clearly stating economic aims. It has been criticised, by Australia for example, for its resulting lack of flexibility and for a narrow emphasis on price, instead of value for money, as the main criterion for evaluation of offers.

Although it deals with social security obligations, the draft is silent on environmental conditions, health and safety, wages and working conditions. A further weakness is that its provisions for administrative and judicial review of awards have been rejected by Japan, probably because judicial review there might easily take 10 years.

One should not draw too many general conclusions from a small sample of work which, even if not perfect, results from devoted efforts of many well-informed lawyers and is indispensable for the development of international trade law; except, perhaps, that there is a need for unification of the unification process and for a greater support of private efforts, which can bring quicker and better results than negotiations between governments.

Dr Hermann is the D J Freeman Senior Research Fellow in International Trade Law at the Queen Mary and Westfield College, University of London, and Editor of the FT Business Law Brief

## LEGAL BRIEFS



## Judicial scheme to offer private appraisal

The UK's Centre for Dispute Resolution, an industry-backed non-profit making organisation set up in 1990 to promote alternative dispute resolution (ADR), has launched a judicial appraisal scheme which will offer businesses a new private judging service. The scheme offers a "fast track" method by which potential litigants can seek an independent assessment of their case from senior lawyers drawn from a panel of experienced barristers and former High Court judges. Parties can then choose to negotiate a settlement or opt for mediation. Users of the scheme can agree to treat the assessment as binding. Alternatively, they can use it as a means of narrowing down the issues for future trial. The costs of using the scheme will range from £750 a day, depending on the value of the claim. Similar techniques have been used in the US under names such as Rent-A-Judge or Judicial Arbitration & Mediation Services, which fields 200 former US judges.

## Supreme Court

The US Supreme Court has failed to clarify when punitive damages awards are excessive. A divided court recently upheld by 6 votes to 3, the constitutionality of a \$10m punitive damages award made by a West Virginia court that was more than 500 times greater than the \$19,000 compensatory damages it awarded to TXO Production Corp, a subsidiary of the US steel, oil and gas giant USX Corp, for slander of title in a dispute over rights to oil and gas beneath a tract of land. The court reiterated its reasoning in a 1991 case that punitive damages must be reasonable within the context of the case, but failed to spell out what would be regarded as unreasonable.

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## PEOPLE

## UK Tec adviser returns to US

The wheel has come full circle. Cay Stratton, who brought her US experience in training and community regeneration to the UK nearly six years ago, and who has been one of the lead architects of radical changes in the delivery of training in the UK, is returning to the US to advise President Clinton's administration on the same issues.

Stratton, who has been policy adviser to three successive secretaries of state for employment in the UK, takes up her new post, as senior policy adviser to Douglas Ross, assistant secretary at the Department of Labor, in September.

A graduate of Stanford University, she has spent her career in the fields of education, training and community economic development. It is a role to which one of her employers says she has brought "bags of go, a great deal of authority and a remarkable ability to bridge the very different worlds of the private and public sectors".



In the late 1980s Stratton was chief executive of the Boston Pils Private Industry Councils, which involve the private sector in education and training. Norman Fowler, the then employment secretary, met her on an educational visit to learn about Pils and US vocational training and in 1987 she accepted a one-year post as his special adviser. She has stayed nearly six, also advising his successors, Michael Howard and Gillian Shephard. Stratton was part of a small team, headed by Sir Geoffrey

Holland, the department's former permanent secretary, which laid the foundations for the government's current policies on training.

These include Training and Enterprise Councils. Stratton was keen that Tecos should learn from Pils' experience - notably by insisting that Tecos' directors were senior executives with high local profiles. In the US the seniority of directors on Pils' boards was allowed to fall; Pils' clout locally also fell.

Stratton, who regularly works a 70-hour week, should also be credited with arguing that enterprise activities should be bound closely into Tecos. One former senior DoE official says: "I doubt we would have had the same emphasis on enterprise within Tecos without Cay."

Nor has she been an easy taskmaster. The official adds: "She has banged away at the performance of Tecos in a way that has been uncomfortable for some of them."

## Bodies politic

Nicholas Finney, chairman and md of The Waterfront Partnership, director of the British Ports Federation from 1983 to 1990, of the National Association of Port Employers from 1981 to 1988 and a member of the Economic Research Council, and Lynda

Rouse, director of corporate finance at Barclays de Zoete Wedd, an adviser to Nigel Lawson during 1983, and a lecturer in materials for energy applications in Baghdad for two years in the late 1970s, have been appointed reserve members of the MONOPOLIES & MERGERS COMMISSION. Tony Nieduszynski, head of

the aerospace division in the DTI and former head of the telecommunications division, has been appointed secretary to the MMC. He takes up the post in October when Stephen Burridge retires. John Watt has succeeded David Houseman as chairman of the THE ASSOCIATION OF CONSULTING SCIENTISTS.

## Granada shift

David Liddiment, director of programmes at Granada Television, is leaving to be the new head of entertainment at the BBC. Liddiment, who was particularly associated with comedies such as Rik Mayall Presents, will be one of five programme department heads under Will Wyatt, managing director of BBC Network Television.

Granada has a tradition of developing television, according to Charles Allen, chief executive of Granada Television. "The Granada alumni roll-call includes Jeremy Isaacs, John Birt, Gus Mac Donald and Leslie Woodhead."

Steve Morrison (left), currently managing director of broadcasting, has been appointed managing director of Granada Television, reporting to Allen. The move is intended to leave Allen free of day-to-day management and thus able to devote more time to strategic issues.

Granada Television, reporting to Allen. The move is intended to leave Allen free of day-to-day management and thus able to devote more time to strategic issues.

## 'Guru' splits role

Shandwick, the international public relations company, has announced that Peter Gummer is splitting the role of chairman and chief executive with effect from next April's agm; with Dermot McNulty, chief operating officer, stepping up into the chief executive's seat. McNulty, 44, spent 15 years with Burson-Marsteller before joining Shandwick in New York in 1989. He moved to the UK the following year, initially as director of international marketing.

He says the move means he will be "responsible for a great number of important but routine things, leaving Gummer, who is accorded 'guru status' in worldwide public relations circles", more time for marketing and business development. Meanwhile, 62-year-old Len Kingshott is joining the board as a non-executive director. He stepped down from his position as deputy chief executive of Lloyds Bank International in 1989; since then he has held a number of positions, including the chairmanship of Rosehaugh, the property group now in receivership. Kingshott had also been lined up to head the European end of BCCI under a planned reconstruction of the group shortly before the Bank of England moved in to shut down the entire operation.

## Nigel Lester: global role at UBS

Nigel Lester, who resigned as chief executive of County Nat-West Investment Management (CNIM) earlier this year, is joining UBS as global head of research next month.

UBS's research operation has been through a rough patch, with the firing of Terry Smith, former head of UK equity research, last autumn, and a steady stream of defections.

Nick Bannister, managing director and head of equity sales, says that it is appropriate that someone from the fund management side be brought aboard to further "the determined effort to see our research product from our clients' point of view". UBS slipped to sixth from fourth position in this year's Eitel rankings of City research departments.

Lester, 40, steps into a new position, combining responsi-



bility for improving equity research in London, Zurich, Paris and Frankfurt with a broader role of co-ordinating the Swiss group's equity and bond research on a worldwide basis. Hector Santa, vice chairman and head of equities, had been filling in as head of research since last autumn. A qualified actuary, Lester

started out in the actuarial department of Legal & General, and "got into fund management as quickly as possible". He then spent seven years in Hong Kong, first with Schroders, later setting up Astina's operations in the Far East. He went back to the US insurance giant's headquarters for a year, but returned to London after a year because he found Connecticut "a little boring".

He says he had already more or less decided to leave CNIM, which has lost a lot of people on the fund management side, before Christmas. "I normally like working 12-hour days, but the fun had gone out of it," he says. Asked whether he was not a little intimidated by some of the big egos already well established at UBS who would now be reporting to him, he replied: "I got some good experience at County."



## ARTS

Opera / Max Loppert

## Bayreuth's new Tristan and Isolde inspire optimism

Opening performance at the Bayreuth Festival is still, it seems, the high point on the German cultural calendar. Eminent visitors are on show: this year Wolfgang Wagner had as his applause-attracting guests Mikhail and Raisa Gorbachev; Richard von Weizsäcker, the German president, was visible in the *prima* *palco* (so was Douglas Hurd). Crowds were out in force. Protesters, a bit rain-drenched, were also in attendance, waving banners questioning expenditure on "star" opera at a time of belt-tightening for the arts throughout Germany.

In this Ring-less year - a new one is due in 1994, conducted by James Levine - the dominant question inside the theatre before curtain-up was a purely artistic one, cause among Wagnerians of long

months of anticipatory excitement: would there be revealed to the world important new singers of Tristan and Isolde?

Almost everything, in fact, was new about this *Tristan*, apart from the conductor, Daniel Barenboim (he had been in charge of the previous Bayreuth production, from 1981 onwards). The controversial former-East-German playwright Heiner Müller was undertaking his first opera production. Erich Wonder, an avant-garde designer much prized elsewhere in Germany, was tackling his first Bayreuth assignment. The Marke, Kurnen and Brangäne were all new - either to the house or to the opera.

But it was the Tristan, Siegfried Jerusalem, and Isolde, Waltraud Meier - native-born Germans both - on whom the brightest beams of attention

were trained. Performers of these mightiest of Wagnerian roles capable of surmounting the peaks and staying the whole course were always in short supply, even when, unlike today, the finest traditions of Wagner-singing were as a whole amply nourished and sustained. At least Jerusalem, now in the mature phase of his career, has approached the opera in careful stages, via his Bayreuth-germinated Siegmund, Parsifal, Walther and Siegfried; and, if light by traditional Heldenentwurf measurements, he has mastered the art of Wagner pacing.

For Meier the risk was greater, the result even more lambently affecting and elating to contemplate. She is still young (late 30s), slimy handsome, and in voice-type a dramatic mezzo-soprano - a Kundry nonpareil, Ebbell, Del-

lah. In the history of this opera more than one leading mezzo has been tempted to "think herself upwards" into Isolde (Marta Mödl and Irene Dalis come to mind); more often than not, though, strain has shown through, and a long-term price has had to be paid.

Meier's first Isolde inspires

'No Isolde of recent times has bitten into the first exchanges with Tristan with such tellingly bated sarcasm'

optimism. In this theatre - voice-fattering, of course, with its covered orchestra and focused acoustics - she could base it on the most appealing of her artistic characteristics, the floating across the orchestra of exquisite, legato-based

long lines, with notes precisely sounded and smoothly joined in the classic manner. The voice, with its highly individual timbre (metal-tipped, liquidly vibrant), sounded not just beautiful but aptly in character, capable by turns of imperious flourishes, anger-heated surges, soft romantic raptures.

No Isolde of recent times has

entertained both to the public. Those famous top notes were all there: not exactly trumpeted, not radiant with Anne Evans's lighter, easier grace, but never evaded and almost never forced. I hope Meier will resist calls to make the role her international calling-card; she needs to continue work on it, patiently and gradually.

To be introduced in a short space to two Isolde - Meier and Evans - of this calibre makes this something of a Wagnerian *annus mirabilis*. Jerusalem's achievement seems more qualified. Much of the lower-voiced, middle-range utterance in Act 3 was wonderfully full, rich-grained, with a musicianly nobility unparalleled in recent times. In *extremis*, as it were, he tended to produce volume and notes rather than musical and dramatic sense; now that he has

proved his ability in the first department, the second needs to recapture all his attention. A conductor capable of steadier overall command of Wagner's long paragraphs would undoubtedly have aided him in the process. Barenboim responds strongly to the beauty of the sound-world - the dullness of his 1981 *Tristan* is now a distant memory - but still insufficiently to formal architecture: his extremes of fast and slow tempo seemed to me ungoverned by the opera's internal logic.

The other notable stroke of casting was the powerful sensitive young baritone Falk Struckmann as Kurwenal; John Tomlinson's Marke was unsteady, too insistent in its expressive detailing. Uta Priew's Brangäne sympathetic but hardly exceptional. Müller's production, an all-

of-a-piece feat of cool, minimalist staging, was at once abstractly interesting, emotionally distancing (sparing movements, everything behind gauze), and centrally unromantic. Wonder's designs achieved fine Rothko-like patterns and plays of light on curious but always fastidiously chosen stage properties (the love duet played out amid serried rows of headless, armless tailor's dummies).

I found it somewhat like a visit to an exhibition of *Tristan*-related modern artefacts in a classy German art gallery. Not an unenjoyable experience - the audience boomed it violently - and not a waste of time; but I could not help feeling the occasion, and particularly the new singers, demanded something far more engaged.

Performances until August 28.

## Theatre

## What's in a name?

If a family is called Jinx, I suppose you should expect misfortunes. And if the play is called *The Devil's Only Daughter*, it is likely that they will be entirely man-made. Nick Stafford's piece at the Cockpit contains almost everything that a rational person will dislike: transvestism, violence, a heavy touch of the supernatural and an overriding note of obscurity. At times it seems like a mixture of "The Archers" and Thomas Hardy, though it appears to be set on a small farm in Scotland. Do not be put off by the background, however: this is a tersely written play. The main reservation is whether it belongs more properly to television.

There has been a killing in the Jinx family nearly 20 years ago. Barton Jinx, who was convicted of the crime, emerges from prison to visit Myra, wife of his twin brother. It was her father who was killed. The husband is also dead, and buried above the farmstead. There remains a son, Billy, whose fatherhood is in doubt. Barton begins to settle down alongside Myra in place of his brother.

What happens in the play is not always clear, nor is it meant to be. An old Mini is parked on stage throughout. It was driven through Dead Man's Wood at 80 mph on the night that the killing occurred. It is driven through the same wood now - at 83 mph - by Billy and his girlfriend, Alex. None of the relationships are obvious. Billy gets on well enough with Alex, but is happiest when dressed as a woman. Alex seems to come from a more conventional background, but suggests that even her family is under stress. If not quite Jinxed, it is when the surrogate father starts beating Billy for his transvestism that the Jinx environment falls apart.

It sounds bizarre, but is compelling. Of the cast of four, Sheridan MacDonald excels as Myra, the woman who always wears trousers, and Billy McColl as Barton looks as if he is literally carrying the Jinx on his shoulders. Jon Morrison directs with the tightest control. The Cockpit, the new home of the Soho Theatre Company, looks as if it has already made its mark on the London fringe.

Cockpit Theatre, NW 8, until August 14. 071-402 5061

Malcolm Rutherford

## Art in Switzerland / Patricia Morison

## Balthus: the shock of the old



"Nu au foulard", a typical Balthus blend of youth and innocent sexuality

Old people are not expected to shock, except by the sobering spectacle of their own decay. As for an old, world-famous artist, he or she is almost by definition one who no longer shocks the public. After two generations, the public feels it knows that artist's work. And yet, our idea of the artist's work will inevitably be largely ersatz, formed by the publishing industry's choice of images for coffee-table books, posters, art calendars and postcards.

Certain artists' work more easily becomes ersatz than others. Lowry is one, Balthus is another. Balthus is now 85 and his paintings (at least, the most "Balthusian" of them) have for decades been among the most recognisable of any artist still living. As for the real thing, however, it is not easily seen; Balthus is still owned largely by private collectors and not by museums. How odd, even perverse, then, that the Musée des Beaux-Arts in Lausanne, Switzerland, has made so little fuss about Balthus, the first major retrospective since the Paris/New York shows of 1968-9.

The Lausanne museum is honouring Balthus, who has lived in the canton of Vaud for the past 15 years. Originally, the exhibition was to have focused on paintings associated with Switzerland, where the artist spent his childhood and adolescence and the war years from 1940. But Balthus himself was enthused by the idea, collectors responded generously, and the result is a major exhibition which moreover looks marvellous. More than 80 paintings, 30 drawings and watercolours are sparsely hung in the lofty white galleries.

They include a good number of the painter's best-known paintings from the 1930s to 1960s: "The Street", "Le Passage du Commerce Saint-André", "The Children", "Thérèse", and "Les Beaux Jours". As well as the figure paintings, there are a fascinating group of the landscapes which are the less well-known side of Balthus's work.

"The Mountain" (1937) is an extraordinarily declaratory and even crude painting of a party of young walkers reveling in the panoramic grandeur of the Alps. They respond with exhilaration to the azure sky, the dizzy views. But one of the two girls is still fast asleep on the velvet turf, wrapped in a personal solitude which is typically Balthus.

After the war, landscapes in France and more recently Italy

have become places of timeless enchantment. Tiny figures endowed with the poles of Giacometti sculptures herd their cows or call in a white horse from the orchard. They are lost in a pastoral world of Virgilian perfection. In his youth, Balthus famously copied the frescoes of Piero della Francesca and Masaccio. His landscapes have the quality of missing fragments from the background of a fresco.

The warders are on the alert to keep visitors far enough away from Balthus's surfaces. Already in "La Victime" of 1937, the paint is thick, mottled, clothed. The technique of putting layer upon layer of pigment means that from close up, "Large landscape with Cows" painted at the Château de Chauxy in 1959 is almost like paint cohering to a pile rug. The image floats on the sun, which is stranger even than the oldest Balthus figures - which is saying quite a lot. However, far from being nude like most of her predecessors, she is fully clad and even rather fashionable, in her luminous lilac leggings. The couch on which she lies, observed by a tabby cat, is loaded like a boat with

gaudy patterned fabrics. Were this the only painting by Balthus of a young girl which one had ever seen, it would be quite mystifying as to why Balthus still has an exotic and even evil reputation. And yet, it is almost exactly 60 years ago that he achieved lasting notoriety with his first exhibition in the Galerie Pierre in Paris. Five large paintings (each 6ft) portrayed situations which were erotic, even sadomasochistic. The real shocker was "The Guitar Lesson", showing a woman teacher sexually assaulting the adolescent girl pupil, bent across her lap in a clear travesty of a Pietà.

Balthus had found a subject which would never cease to unsettle and even shock. That particular painting is absent from the show. Even so, there are a host of young girls, some with long thin limbs like Gothic beauties, some with rounded limbs and moon faces. For many people, Balthus will forever be a dubious artist. They repress him for being the classicist who paints a thoroughly unclassical nude, and more basic still, for being a dirty old man whose nudes of the '30s show him as still fixated on the Lolita figure.

So yes, Balthus can still be shocking. Indeed, such is the degree of hysteria in Anglo-Saxon countries about adult exploitation of child sexuality, it is questionable how many museum directors would feel comfortable today about staging a retrospective of Balthus, "Guitar Lesson" and the rest. In Lausanne they see things differently. The exhibition is fascinating and full of beautiful images; see it, if you can.

If you linger in Lausanne, close by at Martigny the Fondation Pierre Gianadda is showing *Edgar Degas* (150 works; open daily, until November 21). *Henry Darger: The Adventures of the Violent Girls at the Collection de l'Art brut* is deranged, distasteful but curious. The collection itself, formed by Jean Dubuffet, should be seen. The Fondation de l'Hermitage is showing *Claude Monet and His Friends: works* loaned from the Musée Marmottan and private collections (until September 28). Last month, the Museum of the Olympics opened down by the lake. It is far more ghastly even than I imagined, but has some interest as a sign of the times.

Balthus runs until 29 August. Sponsors: Nestlé S.A., Fondation Nestlé pour l'Art, Vevey; MME. Hantach, Chollat & Cie.

## Avignon Festival / Anthony Curtis

## From grossness to great charm

DURING THE three weeks of the Avignon Summer Festival now in progress the area by the Palais de la Culture - the *Place du Palais* - is best avoided. The problem is how to avoid it, because the route to get to whatever spectacle you want to see usually either starts or ends there, so you find yourself plunging into a jostling mob of tourists in groups, demonstrators, jugglers, strolling musicians, grumpy-looking mime artists, leaflet-distributors and all the other hopefuls that pitch camp at this Festival.

At present the Square contains two alien artifacts conspicuous by their modernity. One is a huge male torso towering above the mob; the other is a bronze bird sculpted on the same gigantic scale. As the sunlight bounces off their polished surfaces they seem to be on fire. They are the work of the Colombian artist Fernando Botero - an exhibition of his work *Botero en Avignon* is on view inside the Palais until September 5, after which it will travel to Moscow and St Petersburg.

Let us go inside, where there are a dozen more Botero bronzes - of nudes, horses, fruit - and 100 of his paintings, most of them dating from the past 10 years. How consistently Botero has stuck to his great theme - obesity. Fat kings, fat queens, fat housewives with their fat husbands, fat children with their fat pets - all are treated with the same stylish detachment as if they were living dolls, the pale texture of the paint suggesting real flesh and underlining the roundness and the grossness of the bodily forms.

As one moves from one canvas to the next a magical transformation occurs. Grossness ceases to seem gross. It acquires, under Botero's witty gaze, great charm and naturalness. Then, instead of painting a pear-shaped woman he paints a single pear to the same scale, and we begin to see connections between human and natural forms.

Exiting from the Palais one encounters a little side street - the rue du Mons. It is here, tucked away inconspicuously, that the Festival's most efficient under the direction of Mme Marie-Hélène Arbour. It has a spacious shady garden where every morning open-air press conferences are held about forthcoming productions.

These offer a pleasantly informal opportunity for the media to ques-

tion those artists who are initiating productions at the Festival. French theatre directors and choreographers tend to be highly articulate in public. None more so than Jorge Lavelli, who is directing plays here by Steven Berkoff and Edward Bond. Old hat to us, Bond's work has become a new cult in the French theatre and his recent play performed here about a murder over a cup of tea - known in French as *Maison d'Arrêt* - is one of the talking-points of the Festival.

At the end of the rue du Mons we come out on the *Place d'Horloge* where both the Théâtre Municipal and the Hôtel de Ville stand imposingly. This square tends to be even more impassable during the Festival than the last one as it is largely occupied by restaurants. But once past we have another safe haven in which to retreat, the Maison Jean Vilar. This is a fine old Provencal mansion that has now been made into an excellent museum of theatre and the performing arts in honour of the founding father of the Festival. It is currently showing an exhibition of the stage designs of Georges Pitoeff, the Russian-born actor-director.

Until his death in 1939 he was a figure of innovative importance in the Parisian theatre. Among more than 100 premieres of contemporary French and foreign plays, Pitoeff directed Cocteau's *Orphée*, Pirandello's *Six Characters* and Anouilh's *La Sauvage* - the play that launched this playwright in 1938. Pitoeff's production of Shaw's *St Joan* with his wife Ludmilla in the title role gave Shaw his greatest success in France.

Mme Pitoeff was a diminutive woman of magical presence on stage, as I can confirm - I once saw her as Charlotte Brontë. As one studies her husband's designs for his Shaw production the influence of E. Gordon Craig on Pitoeff clearly emerges. A video in which some of Pitoeff's colleagues in the theatre and his son Sacha pay tribute to him accompanies the show.

Coteau makes the point that all his productions were done on a shoestring. He was, says Coteau, a saint of the theatre. However, there were ways such as Yvonne Printemps who called the Pitoeffs *les pitoyables*. In the theatre even a Pitoeff cannot avoid making enemies. This exhibition leaves one with a renewed respect for his daring, sensitivity, and genius.

## INTERNATIONAL ARTS GUIDE

## AMSTERDAM

Concertgebouw Tonight: Augustin Dumay and Maria João Pires play Brahms violin sonatas. Thurs: Roberto Benzi conducts National Youth Orchestra in works by Tchaikovsky, Prokofiev and Franck, with violin soloist Boris Belkin. Sat: Horacio Gutierrez plays piano recital (24-hour information service 675 4411, ticket reservations 671 8345)

## ATHENS

Odeon of Herodes Atticus Tonight: first performance by Ballet de l'Opéra de Paris. Thurs, Fri: Greek National Ballet in choreographies by Rudi van Dantzig and Germaine Casado (322 1459). Epidaurus The annual festival of ancient drama in the 1400-seat amphitheatre at Epidaurus has performances on Sat and Sun and is Menander's *Samias*. Aug 7 and 8: Euripides' *Trojan Women*. Tickets are available daily at the Athens Festival box office (322 1459) or

at the theatre of Epidaurus on Thurs, Fri and Sat (0753-22006)

## CHICAGO

RAVINA FESTIVAL. Tonight: Joan Beaz. Tomorrow: Peter Paul and Mary. Thurs: Anatol Ugorski piano recital. Fri and Sat: Carlo Rizzi conducts Chicago Symphony Orchestra in works by Berlioz, Walton and Tchaikovsky (Fri, with violinist Yuri Bashmet) and Haydn, Bloch and Mendelssohn (Sat, with cellist Lynn Harrell). Sun: Rizzi conducts concert of favourite opera choruses. Next Mon: Gary Lakes song recital. Next Tues: Tony Bennett. Aug 12: William Christie and Les Arts Florissants. The festival runs till early September. All concerts are broadcast to the lawn for outdoor listening. Lawn admission is always available (Tel 312-728 4642 Fax 708-433 4582)

## COPENHAGEN

Tivoli Tonight: chamber music concert with Lin Ensemble. Tomorrow: Riccardo Chailly conducts Gustav Mahler Youth Orchestra in Mahler's Seventh Symphony. Thurs: Noel Lee piano recital. Fri: Gary Bertini conducts Tivoli Symphony Orchestra in works by Mendelssohn and Ravel, with violin soloist Maxim Vengerov. Sat: Hagen Quartet and pianist Paul Gulda (3315 1012)

## LONDON

THEATRE. A Connecticut Yankee: New Shakespeare Company's revival of a rare Rodgers and Hammerstein

musical, performed in the garden setting of Regent's Park. Previewing tonight, opens tomorrow (Open Air 071-492 2431)

The Madness of George III: Alan Bennett's award-winning play about a king's derangement and its effect on the tottering state. Nigel Hawthorne repeats his acclaimed performance as the afflicted monarch in Nicholas Hytner's production. In repertory with Shakespeare's *Macbeth* starring Alan Howard, Stephen Sondheim's musical *Sweeney Todd* and J.B. Priestley's *An Inspector Calls* (National 071-928 2252)

Sunset Boulevard: Andrew Lloyd Webber's new musical, directed by Trevor Nunn (Adelphi 071-344 0055)

Oleanna: David Suchet stars in British premiere of David Mamet's powerful drama about sexual harassment and political correctness, directed by Harold Pinter (Royal Court 071-730 1745)

Present Laughter: Tom Conti directs and stars in a Liverpool Playhouse production of the Noel Coward comedy (Globe 071-494 5085)

OPERA/DANCE. Covent Garden Birmingham Royal Ballet gives performances over the next two weeks of Peter Wright's production of *Peter Pan*. Beauty, Kenneth MacMillan's *Romeo and Juliet* and a triple bill of choreographies by MacMillan, de Valois and Massine. Daily except Sun till Aug 7 (071-240 1066)

Coliseum Final week of Kirov Ballet season is devoted to Swan Lake and Le Corsaire (071-836 3161)

Royal Festival Hall English National Ballet opens three-week season

tonight with the Ashton production of Prokofiev's ballet *Romeo and Juliet*. The season runs till Aug 14 and also includes *Faust*.

Struckkova's new production of Swan Lake (071-928 8800). Royal Albert Hall BBC Proms: tonight and tomorrow, Tadeaki Otaka conducts BBC Welsh Symphony Orchestra in two programmes, featuring Mahler's Sixth and Walton's First Symphonies. Thurs: Vernon Handley conducts BBC Concert Orchestra in works by Delius, Bliss and Elgar. Fri: Mark Wigglesworth conducts BBCSO in Wagner and Messiaen, with Gwyneth Jones and Joanna MacGregor. Sat: Walter Weller conducts Royal Scottish National Orchestra in Brahms and Schubert. Sun: Handel's *Deborah*. Next Mon: Hanover Band plays Bach (071-589 8212)

## ROTTERDAM

De Doelen Sat: Roberto Benzi conducts National Youth Orchestra in works by Prokofiev and Tchaikovsky, with violin soloist Boris Belkin (217 1717)

## PRAGUE

Prague Festival Ballet, a young independent company directed by David Slobospycký, gives performances of a triple bill tomorrow and Thurs at 20.00 at Palace of Culture, prior to a British tour. The programme includes the premiere of Love Lessons, a new ballet by Slobospycký set to music by Manuel Ponce. Tickets from Bohemia Ticket International, Na Příkopě 12 (228738)

This week's music programme includes the summer concert by Tallish Chamber Orchestra tomorrow at Valdelejnka Zahradka featuring works by Mozart, Bach and Vivaldi, and a recital by Czech Wind Trio on Thurs at Prague Castle. Tickets from FOK, U Práse brány (232 2501)

## STRATFORD

A new promenade production of *Julius Caesar*, directed by David Thacker, starts previewing tomorrow in The Other Place (first night Aug 5). A new production of Wycherley's Restoration comedy *The Country Wife*, directed by Max Stafford-Clark, starts previewing in the Swan Theatre on Aug 4 (first night Aug 10). Alec McCowen stars in Sam Mendes's new production of *The Tempest*, which starts previewing in the Royal Shakespeare Theatre on Aug 5 (first night Aug 11). There are also performances this week of *The Merchant of Venice*, *King Lear*, T.S. Eliot's *Murder in the Cathedral* and Goldoni's *The Venetian Twins* (0789-295623)

## VERONA

Arena There are four opera productions this summer: Cav and Pak with casts including Ekaterina Ignomou, Nicola Martinucci, Giorgio Zancanaro and Silvano Carroli, Cammen with Giovanna Casolla and Alberto Cupido, *La traviata* with Adriana Morrelli and Salvatore Fischella, and *Aida* with Maria Dragoni, Ghena Dimitrova and Kristian Johansson. There will be four performances of Khachaturian's ballet *Spartacus* later in August,

and the season ends on Aug 31 (Booking by telephone or in person: Arcovoli 8-9 dell'Arena tel 045-596517/fax 045-801 3287. Information: tel 045-590109/fax 045-801 1566)

## WASHINGTON

THEATRE. The Phantom of the Opera: Andrew Lloyd Webber's musical, directed by Harold Prince. Till Aug 28 (Kennedy Center Opera House 202-467 4600)

The Twilight of the Gods: Jonathan Tolins' witty family drama with moral, emotional and physical undercurrents. Final week (Eisenhower Theater 202-467 4600)

Land Me a Tenor: a farce of operatic lunacy by Ken Ludwig. Final week (Olney Theater 301-924 3400)

## MUSIC

Metropolitan Post Pavilion. Tonight: Duran Duran. Tomorrow: Lorrie Morgan, Doug Stone and Tracy Lawrence. Sat: Festival of New Orleans. Sun: Tina Turner (301-982 1800). Wolf Trap Tomorrow: Wolf Trap Opera Company in *La clemenza di Tito*. Fri and Sat: Peter, Paul and Mary (1624 Trap Road, Vienna, Virginia, 703-218 6500). Blue Alley Jazz Supperclub. Tomorrow: Latin jazz pianist Danilo Perez (1073 Wisconsin Ave, in the alley, 202-337 4141). Baltimore Symphony Thurs: David Lockington conducts a Viennese night. Fri: David Zinman conducts a Mozart programme. Sun (at Oregon Ridge): romantic works (Joseph Meyerhoff Symphony Hall, Baltimore 410-783 8000)

## ARTS GUIDE

Monday: Performing arts guide city by city. Tuesday: Performing arts guide city by city. Wednesday: Festivals Guide. Thursday: Festivals Guide. Friday: Exhibitions Guide.

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Power cuts are the bane of industrialists in south-east Asia from Manila to Johor, but visiting executives from companies such as France's Framatome, Germany's Siemens and Atomic Energy of Canada can be forgiven for smiling when the lights go out.

South-east Asia's fast-growing economies are increasingly looking to nuclear power to meet growing demand for electricity, a trend that offers attractive opportunities to suppliers of western nuclear technology and equipment while arousing concern among environmentalists.

Indonesia, Thailand and the Philippines have all announced recently that they are contemplating the development of nuclear power stations, and the idea has also been discussed in Malaysia.

Their more advanced east Asian neighbours - Japan, Taiwan and South Korea - already have nuclear power programmes, as does China.

"The Asia-Pacific region has by far the greatest market potential in the next decade," said Mr Woodrow Williams, manager of advanced reactor commercial programmes for GE Nuclear Energy, part of the US power engineering group, speaking at an FT power conference in Singapore recently. "We are talking in terms of \$100bn over the next 15 years."

Taiwan and South Korea are already established markets for nuclear suppliers, but it may take time and effort to convince other south-east Asian countries that nuclear energy is cheap enough and safe enough to be worth pursuing.

"Can the Thai public be sure that a nuclear power plant built and operated in Thailand will be well managed and attain the safety standards as in France?" asked Mr Pisit Pakkaseem, secretary-general of Thailand's National Economic and Social Development Board, a state think-tank, in a speech to Canadian businessmen.

Thailand is unusual in south-east Asia in that its electricity generating authority has invested enough in conventional power plants to be able to meet the demand for electricity so far, although that demand has almost doubled in the past five years.

Thai officials, however, feel they are reaching the limits of what they can do with non-nuclear power. They believe electricity demand will increase by 10-15 per cent annually in the next decade, equivalent to about 1,000MW a year.

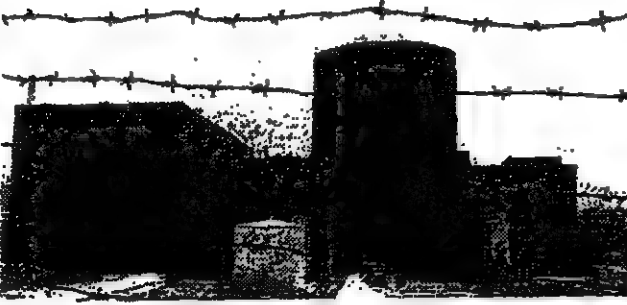
## Fuel to power the future

South-east Asian countries are increasingly turning to nuclear energy, says Victor Mallet

### ASIAN DEVELOPING COUNTRIES

	1990	2000*	2010*	2020*
China	4,000	6,000-10,000	14,000-18,000	
Indonesia		600-1,800	2,500-4,000	
Malaysia		600-1,800	2,500-4,000	
Philippines	820	820-1,600	2,000-4,000	
Republic of Korea	7,220	11,600-14,300	23,400-25,000	35,000-45,000
Thailand		600-1,200	2,500-4,000	

\*Projections. \*Excluding Taiwan, currently with 4,920MW nuclear capacity. Source: IAEA Economic and Social Commission for Asia and the Pacific.



Mothballed: Bataan nuclear power station in the Philippines

Thailand is therefore planning to build six nuclear power plants with a total capacity of some 6,000MW, final approval to go ahead will be needed by 1997 if the first two units are to be commissioned on schedule in 2006.

The authorities acknowledge that public concerns about the risks of nuclear power, the problems of waste disposal and the potentially high capital costs will have to be allayed before a final decision is made.

Thai officials have suggested that countries supplying radioactive material to Thailand may have to take back the spent fuel because the country lacks storage facilities. "We can't hide it in the Klong (canal)," said Mr Pisit.

Some Thai and foreign conservationists doubt that a bureaucracy incapable of enforcing basic environmental and safety regulations will be able to establish a viable supervisory authority for a nuclear power industry, or make it cost-effective. "Cost will be the big problem," said one foreign energy expert.

Thailand's vocal but ineffective environmental groups recommend gas-fired power stations or lignite plants fitted with emission treatment systems. They say Thailand could shave at least 3,000MW from future demand by promoting energy efficiency.

Mr Wilton Permpongsacharn, director of the Project for Ecological Recovery, a lobby group, says government forecasts of a 10-15 per cent rise in electricity demand over the next few years are too high.

Fewer qualms about public opinion or safety issues appear to be found in Indonesia, a less open society than Thailand, which has gone further down the road to nuclear power.

President Suharto backs nuclear energy and has played down the possibility of an accident. "With careful planning we should not have to worry too much about such a risk."

A 1,200MW nuclear power complex costing an estimated \$2.4bn is expected to be built at Muria in central Java by 2005. This will be followed by the gradual installation of a further 5,800MW of nuclear capacity, despite a complaint from Greenpeace, the environmental lobby group, that Java's record

of seismic activity meant that the country "could be heading for another Chernobyl".

In Malaysia, the atomic energy debate is at an early stage. Last year Mr S Samy Velu, the minister responsible for energy, announced that the country would opt for nuclear power generation and that the first power station would be on stream within a decade.

Dr Mahathir Mohamad, the prime minister, subsequently contradicted this and put a stop to any nuclear plans for the time being, saying there was no need for nuclear energy because the country had plenty of gas, oil, coal and hydro-electricity.

If anything should discourage south-east Asians from investing in nuclear power it is the experience of the Philippines. Construction by Westinghouse, the US power engineering group, of a 620MW, \$2.1bn plant at Bataan began in 1976. But it was mothballed on completion 10 years later because the government

alleged that Westinghouse and Burns & Roe, the engineering consultants, had bribed Ferdinand Marcos, the late dictator, to win the contract. There were also reports that the plant had been built on an earthquake-prone fault line.

A Philippine inquiry last year concluded that the plant did not lie on a geological fault, and this year the Philippines lost its US court case against the American companies, which were found not to have bribed Marcos.

Manila has spent millions of dollars on the case and continues to spend millions on interest payments for the plant, which lies idle while the main island of Luzon is subjected to black-outs up to 10 hours long.

Officials say a further \$400m will have to be spent over 30 months to upgrade the plant to 1992 safety standards, only slightly less than the cost of a new conventional power station of similar capacity.

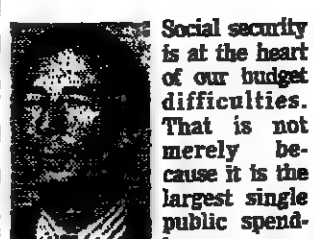
The Philippine government seems undeterred by this financial disaster. Last week President Fidel Ramos ordered his government to prepare a nuclear power plan by November.

Mr Pablo Malik, the former chief of the National Power Corporation, the state-owned utility, said he doubted if either the Indonesians or the Thais would backtrack on their commitment to nuclear energy. "It's going to be the fuel of the future," he said.

Additional reporting by William Keeling in Jakarta

## The chancellor's dilemma: an inside view

# Soft heart of our problem



Bill Robinson

Social security is at the heart of our budget difficulties. That is not merely because it is the largest single public spending programme, nor even because it is growing so fast. It is because it is demand-driven.

There is a commitment to pay benefits to all who meet the qualifying conditions. The public spending plans are based on official estimates of the number of claimants. If the number proves greater than estimated, we have (in Treasury jargon) an irresistible bid, and spending threatens to rise above target.

However, total public spending is subject to cash limits. So in theory, when social security spending rises, other elements in the budget must be cut back. This actually happened last autumn when, in order to stick to its spending plans in the face of a near 50bn increase in the social security budget, the government had to cut other programmes. That was why last year's spending settlement was genuinely tough even though total spending was not reined back.

The inexorable growth of social security is a prime reason why the government has continually to choose between making swingeing cuts in important programmes and failing to control spending. Loss of control tends to happen before elections, with cuts coming afterwards. But for much of the time, whatever they choose to do, governments are accused by the right of loss of control and by the left of excessive cuts.

During the recession just ended, which coincided unusually with an election, irresistible social security bids helped to drive public spending above target and upwards as a share of GDP. There is nothing unusual about public spending taking an increasing share of GDP during recessions.

That is why the 1992 Autumn Statement separated out so-called "cyclical social security" and failing output. Over the cycle, the public spending share should rise in the recession and fall in the boom.

The problem is that, in our political economy, spending never falls by enough in the boom. So when the irresistible bids push it up in the next recession, the share of GDP taken by total public spending reaches a higher level than at the same point in the previous cycle. The deterioration of the public finances is most evident in recessions, but much of the damage is done in booms.

That certainly happened in the boom of the late 1980s, when unemployment and the associated social security payments fell. There are always strong claims on the public purse, and they ensured that total spending continued to rise, in nominal terms, as fast as before. This fact was, however, obscured by the sharp real squeeze on public spending in 1988, when inflation came in 3 per cent higher than expected.

So what we have is a classic ratchet effect. When public spending on social security falls, as it does in boom times, other spending rushes in to take its place. But when spending on social security rises, as it does in recessions, the effect of this "irresistible" new spending is to swell the total. The combination of a target for total public spending and special status for the "irresistible" social security bids is lethal.

That is why the 1992 Autumn Statement separated out so-called "cyclical social security" and failing output. Over the cycle, the public spending share should rise in the recession and fall in the boom.

Unfortunately, there is another and potentially more dangerous ratchet effect at work in the social security arena. At times when unemployment has risen more rapidly than there has also been a sharp increase in the take-up of other benefits such as invalidity benefit. A new group of clients becomes aware of the wide range of benefits available to them. When unemployment falls in the subsequent recovery, there is no comparable fall in the numbers receiving other benefits. So the take-up of a wide range of benefits increases steadily over time.

If we compare the numbers expected to receive benefits this year with the numbers in 1978-79, just before Mrs (now Lady) Thatcher took office, the increases are startling. The numbers claiming invalidity benefit have gone up by nearly 1m, nearly tripling the case load. The numbers claiming mobility allowance have also risen by nearly 1m, increasing the case load by a factor of 10. The numbers claiming attendance allowance and one-parent benefit have also tripled and are approaching 1m in each case.

It would be wrong to conclude from these figures that the 1980s saw a threefold increase in the numbers of

invalids, single parents and those "requiring frequent attention... in connection with their bodily functions" (the qualifying condition for attendance allowance), or a 10-fold increase in the numbers unable to walk. Obviously what is going on is that an increasing proportion of those eligible for these benefits have been taking them up and/or the criteria for eligibility are being less strictly applied.

Which brings us to a key feature of the social security budget: not all those entitled to benefits take them up, but take-up rates are steadily increasing over time. For some benefits, take-up rates are as low as 65 per cent.

These simple facts have profound implications. In a sense the government is committed to a level of support for benefit recipients that it could not possibly afford if all who were entitled to benefits claimed them. As time goes by and take-up rates rise, that becomes increasingly apparent. The increase in take-up rates is now the main factor driving up social security spending. Take-up rates increase especially rapidly in recessions as new clients learn their way round the benefit system. Once on they stay on. Recessions thus accelerate the upward trend in take-up, but booms do not reverse it.

The government will never get the public finances properly under control until they find a way of curbing the irresistible upward march of social security spending. That is why the long-term public spending exercise put in place by Mr Michael Portillo, the chief secretary to the Treasury, is vitally important. Radical solutions are needed. I shall look at some of the options next week.

Bill Robinson

The author is former director of the Institute for Fiscal Studies and was a special adviser to the former chancellor, Mr Norman Lamont.

## Recessions accelerate the take-up of social security benefits, but booms do not reverse it

	Invalidity benefit	Attendance allowance	Mobility allowance	One-parent benefit
1978-79	600	285	95	280
1993-94	1,595	830	1,000	890

Source: public expenditure white papers

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Only way to compete effectively

From Mr John Farago.

Sir, Without spending 240 to buy the report, it is hard to understand why "The impact of Japanese firms on working and employment practices in British manufacturing industry" is given sufficient credence and status to merit a front page story in the Financial Times ("Doubts over effectiveness of Japan-style work practices", July 19).

The management methods which have made Japanese industry and Japanese-owned industries in Britain and other countries so successful - attention to quality systems, quality products, statistical process control, flexible manufacturing, empowering workers to control and improve process and, above all, loyalty by employers to employees - have been adopted by successful British companies for years.

The argument about the benefit of "Just-in-time" supplies - that reduction of storage space, reductions in working capital, and early discovery and correction of faulty inputs far outweigh the risks of inherent disruptions - was settled some 25 years ago. It is too complacent to imply that old British work practices are less likely to lead to worker resentment and disruption than today's world-class best practice, whether of Japanese or any other origin.

As for the danger to health and life of working too hard, has the risk of death through overwork been compared with the well-documented increase in illness and death in the UK resulting from unemployment? The most likely consequence of not adopting competitive management styles and work practices is no work at all.

John Farago, 121 Church Road, Wimbledon, London SW19 5AH

### Good example for timber production management

From Mr Jean-Pierre Klekens.

Sir, The terms of the new International Cocoa Agreement ("Cocoa pact goes for output management", July 20) should be most instructive to the negotiators of the International Tropical Timber Agreement (ITTA). The cocoa agreement rightly puts the emphasis on production management, whereas ITTA negotiators still discuss, among other aspects, the suitability of a reference to "Target 2000", according to which all tropical timber reaching international markets should be "sustainably produced" by that date. Instead of discussing time targets, ITTA negotiators would be better off

to concentrate on production management.

This would be most suitable to the ITTA, as it would lead to better prices for tropical timber producers and a more environmentally friendly exploitation of the tropical rain forest.

Environmental and economic objectives would be simultaneously addressed, and the international tropical timber trade would stand a chance of subsisting in the long run.

Jean-Pierre Klekens, director, Environmental Strategies Europe, Chaussée de Wavre 1517-P, B-1160 Brussels, Belgium

From Mr Peter Rupert Light.

Sir, Even if I had not been in the audience of Julian Grant's opera, *A Family Affair*, I still might have felt obliged to write about Max Loppert's performance in print ("Not so comic capers", July 10). The stridency of his tone more than makes up for the work he so bitingly criticises and the libretto of his dialogue is itself worthy of music. After all, it is Mr Loppert who suggests that *A Family Affair* is too good even to need music, making the case, therefore, that the music of an opera is best matched to an unworthy libretto.

Among the serious music crowd, there seems to be a perverse satisfaction taken in the alienation of the audience from the music. Such elitism is ironic, indeed, since most people subscribing to the inaccessibility of the arts fancy themselves very much of the people.

The greatest fear is popularity which is seen as the steep and slippery slide to Lloyd-Webberism.

The reception of Grant's work highlights the victimisation of opera audiences intimidated into enduring the personal statements of precious composers by the musical poobahs who all too often applaud these composers' new clothes. Ironically, the critics of modern music have become the very establishment from whom they claim to protect us; thus, the revolutionary archaism of *A Family Affair* poses so great a threat because it connects directly with the audience, thereby sweeping aside the cultural vigilantes who tell us they know best.

Peter Rupert Light, 14 Princes Gate Meads, London SW7 2PS

From Mr Jan S. Sorensen.

Sir, With reference to the article "Exotic options for the bill" (July 19), we oppose two views expressed in that article.

1. Knock-out options: "They are generally about 35 per cent cheaper than other options". To say that they are generally 35 per cent cheaper is a very misleading generalisation. The reduction in the premium of a knock-out option com-

### Child care tax proposal illogical

From Ms Mary Campbell.

Sir, Victoria Tomlinson is out of order in her complaints that (a) the cost of a training course for her nanny is not tax-deductible and (b) the cost of a nanny is not tax-deductible (Letters, July 16).

Rightly or wrongly, much other training, for example business school courses, is not tax deductible. It would be wrong for a nanny's training to be made an exception.

Making the costs of child-care tax-deductible would effectively penalise parents who earn little and parents who give up work (and therefore earnings) to care for their children. The parents who would benefit most from making child-care tax deductible are richer ones who do not want to look after their children.

Ms Tomlinson complains that she cannot run her business without child care. Just because you cannot work without something does not mean it should be tax deductible. On that basis, for example, transport to and from place of work should be tax deductible.

If the state wishes to contribute more towards child care it should increase child benefit (which should, incidentally, be taxable on the caring parent, usually the first name on the child benefit book). This leaves choice in the hands of the parents as to the form of care (lower income because you do it yourself/care at work/care close to home etc). It also means that parents under most pressure - particularly single parents on low incomes - would be helped most.

Making place-of-work child care tax deductible was logically the wrong approach.

Mary Campbell, 6 Grange House, Highbury Grange, London N5 2QD

From Mr Jan S. Sorensen.

Sir, With reference to the article "Exotic options for the bill" (July 19), we oppose two views expressed in that article.

1. Knock-out options: "They are generally about 35 per cent cheaper than other options". To say that they are generally 35 per cent cheaper is a very misleading generalisation. The reduction in the premium of a knock-out option com-

pared to a plain vanilla option depends primarily on the level of the out-strike (knock-out level). As the "out-strike" is determined by the client the premium reduction could be anywhere from 0 to 95 per cent. Also it is important to understand that the reduction in premium is obtained by accepting a risk that the hedge might vanish if the out-strike level is reached.

2. Instead of buying options, companies can replicate options by dynamic hedging. "This method creates substantial savings", according to Mike Shilling. That means options are overpriced.

Based on trading experience and empirical research, we do not find that FX option prices in general are overpriced. Taking into account the transaction costs and gamma risk

associated with such a strategy we do not believe that "dynamic hedging" is appropriate for hedging purposes. Actually such a strategy would probably be more expensive and dangerous for companies in the longer term.

Jan S. Sorensen, senior manager FX trading, Sydbank, Sønderjyllands, Postboks 169, 6300 Aabenraa, Denmark

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## FINANCIAL TIMES

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Tuesday July 27 1993

## Sabotaging the rouble

LAST WEEKEND'S charade, instigated by the Russian central bank, must finally have confirmed to the satisfaction of anyone who still doubted it that the bank is determined to subvert economic reform in Russia. Much more worrying is yesterday's decision by President Yeltsin to soften, rather than rescind, the terms of the central bank's monetary confiscation. At best, it suggests that Mr Yeltsin does not understand the outrage felt by the reformers in his cabinet. At worst, it suggests the reformers no longer have the president's support.

The events of the last few days have combined tragedy and farce, both with a strong sense of historical irony. It is only a little over two years since President Gorbachev's prime minister, Valentin Pavlov, tried to solve Russia's inflationary problems by confiscating bank notes.

Then, as now, the policy caused chaos and public outrage while achieving nothing of value. The government's gaping budget deficit has remained, while other republics have continued to emit rouble credits. Indeed, this latest act will only make things worse. By guaranteeing to exchange up to \$255,000 worth of old rouble notes for new ones up until August 7, the central bank has actively encouraged rouble credits issued in other republics to flow back into Russia. By extending the date until the end of August and raising the upper limit to \$255,000, President Yeltsin's compromise has only made this inflationary problem worse.

## Gravy train

IT WAS BAD enough for present and future pensioners in the Maxwell business empire to be fleeced by the late, lamented publishing baron. For them now to be plucked by the accountants and lawyers as well in one of the most unwise involvements of all time is simply unconscionable. Yet that, to judge by the evidence in the Social Security Select Committee's latest report, is precisely what is happening. No doubt the eight professional firms that have so far charged \$51.5m for their insolvency work are convinced that this is a fair reward for a difficult job. But the Select Committee, chaired by Mr Frank Field, is rightly sceptical. It is a scandal.

The Maxwell insolvency, like those at Polly Peck and Bank of Credit and Commerce International, is exceptionally complex. There are, inevitably, jurisdictional problems in untangling the cross-border business groupings. Record keeping in the Maxwell companies was often shoddy in the extreme. Where fraud is involved, the purpose of the records is anyway to throw the outside inquirer off the scent. It follows that the Maxwell insolvency was always going to be an expensive classic of its kind. But the size of the professional charges, which Mr Field's committee expects to top \$100m by the end of the process, raises wider questions about the checks and balances in the insolvency system.

Preferential and secured creditors, by definition, have little reason to be concerned about costs

## Cash returns

REUTERS' DECISION to spend \$350m of spare cash buying back its own shares deserves to be more widely imitated. The idea of buy-backs has never really taken root in the UK, despite its continued popularity in the US. Even GEC, the UK pioneer of the scheme, has not bought in shares since the mid-1990s. But the rationale is becoming increasingly persuasive. If extra cash is scarcely a pressing problem for UK companies, it is at least more common than it was. This year, for the first time in five years, the UK corporate sector looks like generating a financial surplus. Meanwhile, the return on cash is abnormally low in relation to other forms of investment, so there is a greater opportunity cost to shareholders in leaving money idle. The traditional way of managers with spare cash is to buy things; but acquisition, especially for purposes of diversification, is decidedly out of fashion.

There can be exceptions to the general rule. GEC, for instance, could defend its decision to stop buying shares on two grounds. First, the rationalisation of its particular industry may have further to run, so that spare cash may sensibly be held for a strategic purpose. Second, like many other UK-based multinationals, GEC has a potential problem with advance corporation tax, since buying in shares counts for tax purposes as a distribution of income. Other companies with cash mountains have less excuse. In particular, drug companies like Glaxo and Wellcome, faced with the likely

The tragedy is that this policy shift will now, deliberately or mistakenly, undermine the fragile confidence in the rouble as a store of value that had grown over the past two months. Confidence in the currency had allowed the central bank to accumulate up to \$1bn in foreign exchange reserves last month, essential if the government is to fix the exchange rate and stabilise inflation. Now, as the prospects for stabilisation recede, the bank's new-found reserves are likely to vanish just as fast.

The farce is that this decision, to confiscate old roubles and thus violate the contract between issuer and holder of money in Russia, was taken by the central bank, at a weekend's notice without consulting, let alone seeking approval, the finance minister. This is the nature of government in today's Russia.

Thus the sad history of Russia's latest encounter with economic reform moves again to a climax. In Mr Yeltsin's hands, it has become a play without director or sense of direction. Only if President Yeltsin now acts decisively should aid continue to flow. He must publicly back the reformers in his cabinet, repudiate the misjudgments of recent days, sack the central bank officials responsible and allow the reformers to take control of monetary policy. Until he does so, the west should resist Moscow's urgent plea for a further tranche of western aid. Without such aid, Russia's reforms will not succeed; without presidential willpower, such aid will be worse than useless.

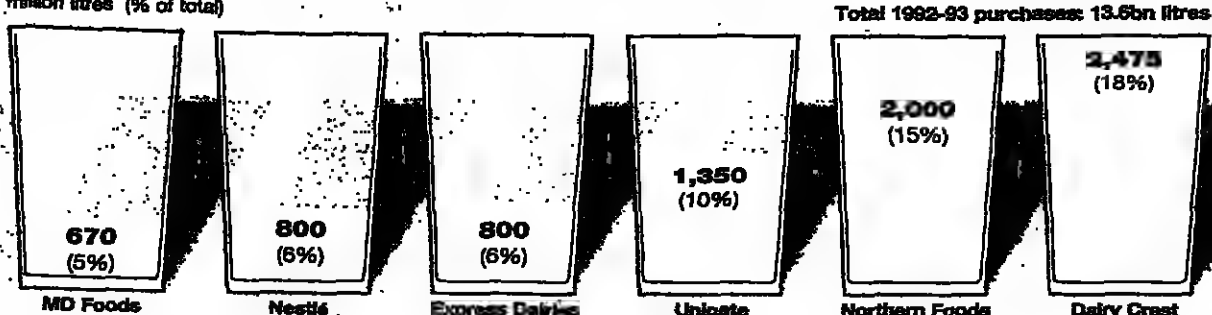
because they have first bite at the cherry. The real burden falls on the unsecured creditors; and they have difficulty second guessing large firms of accountants and lawyers if they suspect that they are stringing out a receivership or administration for the sake of generating additional revenue. The obvious sanction - going to court - is an expensive option. Nor does it seem worth the bother of making a fuss if the pay-off amounts to 4p rather than 3p in a pound that has already been whittled away by prior claims.

Mr Field puts a case for an independent state-appointed monitor of the larger insolventcies, along the lines of the US-style examiner. This certainly merits consideration. But the real flaw in the system stems from the undue weight given to the claims of the Island Revenue, the Customs & Excise and the banks, relative to those of ordinary creditors including pensioners for whom the protected nature of insolvency proceedings is a particularly harsh burden. Equally striking is the inability of the Maxwell pensioners to seek redress against a government which may be in breach of legal obligations, for want of resources.

A review of the system, says the committee, is a priority. Yes, indeed. There has to be a middle way between the US Chapter 11 system, which leaves the bankrupt company in the hands of the management that wrecked it, and the UK approach, which leaves the cadaver at the mercy of the professionals.

## UK milk industry: the cream of the competition

Milk purchases by dairies 1992-93 million litres (% of total)



Others 5,480 million litres (40%)

Total 1992-93 purchases: 13,670 million litres

The cost of a doorstep pint (Pence)

Milkman's margin	5
Milkman's distribution & delivery costs	9
Processing costs & dairy companies' margin	9
Milk Marketing Board's costs	1
Farmers' price	13
<b>Cost to customer</b>	<b>37 pence</b>

Source: NatWest Securities estimates

A s 300 dairy farmers converge on London's Queen Elizabeth conference centre today for the last annual general meeting of the Milk Marketing Board, they fear that the milk market is about to turn sour. The meeting coincides with final passage of the Agriculture Bill, which will abolish the board and its statutory monopoly over milk purchasing in the UK.

The end of the monopoly under which farmers must sell their milk to the milk board, which then sells it to dairies, will unleash free-market forces on an industry which has been strictly controlled for 60 years. Competition could encourage a confusing free-for-all, which could, ironically, lead to consumers paying a higher price for a "pinta".

Quoted dairy companies have already seen their share prices fall as investors fear the new regime will hit profits.

The changes in the milk industry bear the hallmarks of the government's privatisation of the energy industry, particularly British Gas, which has faced years of regulatory struggle and investigation by competition authorities because it was privatised as a monopoly.

The milk board system - the sole milk outlet for the UK's 29,000 dairy farmers - was set up in 1933, when five boards were formed, one covering England and Wales, which now accounts for more than 80 per cent of the UK's milk production, three in Scotland and one in Northern Ireland. All five are to be abolished.

Their monopoly developed because farmers needed to forge themselves into a strong sales body to counter the buying power of the large dairy companies. According to one dairy executive: "In the 1930s farmers were crudely abused by the dairy companies," which were buying milk when they needed it, but refusing to take it in slack periods.

The board system brought order to the market. Farmers sell their milk to the board, which pays them the same "pool" price, regardless of

the quantity of milk sold or the distance the tanker must travel to their farm. Farmers have come to rely on the daily tanker collections and monthly milk cheque.

"The milk board system is strong in the farmer's culture, and farmers are conservative people," said one dairy executive. "Farmers are worried about the effect of the reforms. 'I can well remember my father pouring milk down the drain and, frankly, it frightens me to death does this new set-up,'" said one Yorkshire dairy farmer.

The milk board for England and Wales will become Milk Marque on April 1 next year, reformed as a voluntary co-operative. Its final proposals have still to be agreed by the government. The other boards are expected to announce similar plans.

Milk Marque hopes to sign up most of the farmers selling to the board and so retain more than 80 per cent of milk production in England and Wales. If it achieves that aim, it will give farmers the security of price and collection many seek. But it could be open to accusations of abusing its dominant market position if it forces up prices to dairy company buyers, which in turn may pass them to consumers.

Several dairy companies and food processors - such as Northern Foods, Nestlé and MD Foods - plan to challenge Milk Marque by buying their milk direct from farmers or setting up their own co-operatives. They argue that Milk Marque will,

in effect, be merely a milk broker, which will add to consumers' costs without providing any benefits.

The battle to sign up farmers has begun. Advocates of Milk Marque are playing on some farmers' fears that the difficulties of the pre-1933 era will return. "We're dealing with some large and very powerful buyers and our only hope is to stand united," said Mr Meurig Raymond, whose South Wales farm has 500 cows.

"As a farmer, if you tie your fortunes to just one company, you will rise and fall with the success of that company and not have the broad selling power that will be associated with Milk Marque," said Mr Andrew Dare, chief executive of the Milk Marketing Board who will head the new organisation. "We're not just a milk broker; we're the farmer's marketing and distribution department."

Mr Dare is hinting at higher prices as an inducement for farmers to join him. He believes a more competitive market will mean price increases of up to 10 per cent. In 1992-93 the "pool" price was 21p a litre, and is expected to be 22p-23p this year. That could rise to as much as 25p a litre by 1995, according to Mr Dare.

Still higher prices are being suggested by the Northern Milk Partnership, the leading rival to Milk Marque, set up as a 50-50 joint

venture between Northern Foods and the farmers who will supply it.

"Northern will pay a milk price higher than the Milk Marque pool price," promises the brochure sent by the partnership to 17,000 dairy farmers. It also assures farmers of daily collections and monthly cheques.

Northern Foods buys 2bn litres of milk a year, 17 per cent of total production in England and Wales, and aims to secure all its supplies through NMP. Mr Neil Davidson, senior operating executive in charge of milk policy at Northern Foods, said it is "very confident" of getting the milk it needs.

Some dairy groups - such as Northern Foods, Unigate and Avonmore Foods - believe they can offer more to farmers for their milk because they already pay a premium to the Milk Marketing Board under the current arcane system. Milk is sold at different prices according to the use to which it is put. Liquid milk costs more than milk for cheese and butter so some companies pay more for supplies.

Farmers are thus in the enviable position of seeing milk buyers squabble over their loyalty. But who will pay for the higher prices farmers may receive for their milk?

Mr Dare contends that increased payments for farmers will not necessarily mean a rise in customers' prices. He says that dairy companies and processors - particularly butter and cheese makers - should absorb the higher costs because

they will be getting a better service and assured supplies.

Dairy companies believe that Milk Marque should absorb some of the potential price rise by cutting costs, something Mr Dare is committed to achieving.

Northern Foods on the other hand pledges to pass increased costs to the consumer. Mr Davidson said: "Any increase in milk prices will have to be recovered from the marketplace."

Prices could rise anyway, because of the tight market for milk in the UK. When the milk board system was set up there was a surplus of milk, giving the dairy companies the upper hand. Now, after nearly 10 years of European Community milk quotas, the UK produces only about 85 per cent of its needs, with most of the rest imported as butter and cheese.

Dairy processors are eager to secure milk supplies to keep their factories running at full capacity, and thus operating as efficiently as possible.

One dairy executive expressed his fears: "We are likely to find quite a scramble for milk from April 1 next year to keep the processing plants going. The first year will be difficult and milk will get more expensive."

Many dairy executives privately admit they expect Milk Marque to capture more than 80 per cent of the milk supplies, at least initially. But several observers believe that, once farmers see some of the advantages to be gained from competition in the marketplace, they could start splitting off to form local or regional co-operatives similar to those in continental Europe.

Some critics believe the government should not allow Milk Marque to become a national monopoly once the Milk Marketing Board's hold on the market has been removed. Competition could develop more effectively if it were split up into regional units. Otherwise, UK consumers could end up paying for a freer market in milk, while farmers enjoy the benefits of security and stable prices.

## Gatt effort must not be wasted



PERSONAL VIEW

Seven years after the current Uruguay round of the General Agreement on Tariffs and Trade began, there are renewed hopes that the negotiations will be successfully concluded. However, before considering how this might be achieved, it is worth asking whether the circumstances of 1986 remain the same and, if so, whether the objectives are still valid.

Substantial changes have taken place.

- The world political framework has been transformed, through, for example, the end of the cold war.
- Eastern European countries are being transformed into market economies and are becoming part of the world trade system, although some have not yet completed their process of integration to Gatt.
- Developing countries are achieving significant structural change. According to Gatt data, there are 72 governments that have adopted policies for commercial liberalisation.

Regional and sub-regional integration aimed at providing better commercial conditions within member countries has made great headway. And in 1992 alone, the secretary of Gatt recorded 17 new regional agreements on trade.

Growth in international trade in 1992, both of merchandise (4.5 per cent in volume) and services (8 per cent), would suggest that the conclusion of the Uruguay round has not been necessary in the promotion of the world trade.

However, it would be a serious mistake to leave it like this, as the growth was due to a convergence of factors and not to a consolidated trend. The tendency since 1988 has been for trade and world production to slow down.

A balanced and substantial package is needed to achieve economic expansion through world trade. According to recent studies, the opening of product markets as a consequence of the Uruguay round would inject as much as US\$200bn annually into the international economy. With this, trade will become the basis for the development and growth of nations.

Likewise, common rules must be reinforced in the process of regional integration, enabling all parties to benefit from the expansion of world trade. This process not only has to be consistent with the articles of Gatt but also has to converge with the principles and objectives of international free trade and of multilateralism.

A successful conclusion of the negotiations is essential for

**A balanced and substantial package is needed to achieve economic expansion through world trade**

strengthening the economic reforms and the liberalisation processes of developing countries, which have been frequently undertaken under difficult political and social conditions. This effort should not be wasted, as it is a vital factor in integrating developing economies within the international economic trade system.

As for industrialised countries, the growth of world trade within a more stable, balanced and foreseeable framework will lead to macro-economic stability, with favourable consequences for employment and investment. At the same time, it will slow down protectionist trends and will help to eliminate commercial tensions and deter countries from introducing commercially restrictive measures.

The answer to these challenges cannot lie on technical arguments, for, after seven years of negotiations, the problems and their likely solutions have already been thoroughly identified. The Final Act Draft, presented in 1991 by Mr Arthur Dunkel, former director-general of Gatt, is an adequate basis to reach final agreements and comply with the goals of the Punta del Este Declaration.

The conclusion of the Uruguay round must be regarded as the political responsibility of the participating governments which would have to be ready to assess and make the concessions which the global agreement demands. The recent Group of Seven meet-

ing in Tokyo seems to show the clear and concise will of the principal commercial partners to conclude the negotiations. This has contributed to the round's relaunch and has given it the impulse for Gatt secretary-general, Mr Peter Sutherland, to proceed towards the final stage, one of the thorniest of the round.

The responsibility of the G7 members in the conclusion of the round is undoubtedly great, but the success of negotiations will depend upon the effort and the commitment which all 113 contracting parties of the Gatt assign to this enterprise. All of them must encourage the growth, development and economic welfare of their own countries as an essential step towards strengthening the supreme values of democracy, social justice, freedom and dignity.

**Dr Sergio Abreu Bonilla**

The author is the Uruguayan minister of foreign affairs

## Anthem for the Bank

■ The wisdom of Prometheus is something to which all top officials of the Bank of England aspire. So it is fitting that the Bank has hired Geoffrey Burgon, who wrote an opera about the demigod and is one of the most eclectic of Britain's modern composers, to think up a tune to celebrate the Old Lady's 300th anniversary next year.

The work will be performed next Summer (pencil in June 8 at the Barbican), and looks like being one of the lighter moments in a year of celebrations of the Bank's tercentenary. Other highlights include a Service of Thanksgiving at St Paul's, a new £50 note issue, and a conference of 130 central bank and other international big-wigs.

As for the Bank's new theme tune, new governor Eddie George is giving the composer a free hand and will learn about the score only on the day of the performance. Like "Hard Eddie", Burgon was a late developer and got interested in music only at the age of 15, when he learned the trumpet.

An enthusiast for old cars, Burgon has made a mint by taking an unashamedly commercial attitude to music, mainly through creating easy-to-listen-to signature tunes for TV series, such as *Brideshead Revisited* and *Chronicles of Narnia*. He has also

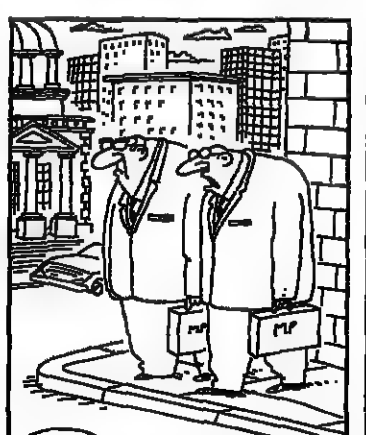
plunged into serious music through works such as *Requiem* and *Writing scores for ballets, including Persephone and Ophelia*.

Given the topsy-turvy environment of central banking, especially in the light of exchange-market turbulence and the BCCI affair, Burgon may draw inspiration for the new assignment from his recent concerto, *The Turning World*. A recent song - *I Went to Heaven* - encapsulates all that central bankers aspire to. As for the forces of retribution that await bankers who make one mistake too many, Burgon has also provided the score to *Murder in the Cathedral*.

## Value for money

Meanwhile what on earth is the Bank of England doing giving half a million pounds to double the size of its Houlston-Norman fund so that it can undertake yet more academic research into central banking matters? The Maxwell pensioners or the depositors in BCCI might well believe they have prior claims if there is spare cash about. As for the sum involved, £500,000 might sound a lot but, if the aim were to maintain the real value of the original 1944 endowment of £100,000, topped up by £50,000 in 1967, then the Bank should have injected much more loot. Observer's calculations suggest that the value of the combined endowments has slipped

## OBSERVER



"I'm thinking of inviting John Major to my parents' wedding"

to 21 per cent of their original value in real terms.

Is this why the first research project for 1993-94 is to inquire into index bonds and inflationary expectations?

## Unhappy families

■ The suicide of Raul Gardini, laid to rest in his home town of Ravenna, struck a chord among many of the inhabitants of the sleepy seaside town. On a gloriously sunny Sunday, long lines of mourners had already formed outside the church where his body lay, and thousands more, stunned

by the circumstances of his death, gathered yesterday to bid farewell at a moving funeral service.

While Ravenna will not easily forget its most famous son, whatever his misdemeanours, the apparent reconciliation of Ferruzzi family members around Gardini's tomb is much less likely to endure.

Rumours are already circulating that there may be attempts at legal action against the Gardini branch, revisiting the 1991 deal when Gardini's wife, Idina, née Ferruzzi, sold her stake in the Serafino Ferruzzi family holding company back to her brother and two sisters for the sum of £105bn (£308m).

## Field's field day

■ It is difficult to imagine Joe Public doing anything other than uttering a loud cheer at the insurance industry's latest round of difficulties.

First the Treasury launches an assault on its sales practices by calling for an even bigger clean-up than the one proposed by the Office of Fair Trading. Now, the Commons Social Security Committee has taken a tilt at its reluctance to pay up.

The committee, chaired by the increasingly terrier-like Frank Field, complains in its latest report on the Maxwell pensions saga that the insurers operate "a gentleman's agreement philosophy" when issuing and renewing policies, but turn horribly legalistic when the

poor old pension fund trustees put in their claims.

The locus classicus is the largest of the Maxwell policies, known as the crime policy, providing £40m of cover for the dishonest misappropriation of assets by the employees of the Maxwell companies. If that's not what the late Cap'n Bob was up to, what on earth was it that he perpetrated?

Aha, say the insurers, but since he failed to disclose the fraud to the insurers at the renewal date - likely one, that - the policy is voidable. Along with a string of other excuses, they even manage to argue that since Maxwell and his aides were directors of the company, they were not employees as such.

The industry explanation is that insurance is based on the idea of utmost good faith. What that means, apparently, is that the insurers are prepared to hand back the premiums. But Field is not impressed. When it comes to Robert Maxwell, his committee remarks, the insurance companies "can be added to the growing list of organisations and individuals who were only too willing to accept his money and equally willing to ignore his track record".

## Ay-oop

■ If yesterday's Anglo-French summit had been held in Yorkshire, rather than London, would it have been called a Summit meeting?







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## INSIDE

### BMW profits warning as sales fall 9%

BMW sales fell 9 per cent to DM14.7bn (\$8.5bn) in the first half. Chairman Mr Bernd Pischke said earnings, which are expected to be announced tomorrow, suffered from this sales slide. Page 22

### Chevron back in the black

Chevron, which has moved further than most large US oil and gas groups to cut costs, suffered a fall in second-quarter net income to \$50m because of restructuring charges of \$552m. Page 23

### St James's makes pay-out

St James's Place Capital is to give shareholders its 37.6 per cent stake in RIT Capital Partners, worth £104m (\$168m) in cash, to disentangle Lord Rothschild's two companies and make SIPC a more focused UK financial services group. Page 22

### TSB to sell leasing arm

TSB Group continued its disposal of businesses outside its UK retail banking core by agreeing to sell Swan National Leasing, its vehicle contract hire business, to the leasing arm of Midland Bank for £182.5m (\$274m). Page 22; Lex, Page 20

### Gucci tries to end deadlock

Mr Maurizio Gucci, chairman and joint shareholder of Italy's Gucci luxury goods group, offered to sell his 50 per cent stake or buy out the investor-owned banking group, the other joint owner, in an attempt to break the deadlock facing the company. Page 22

### TV - Latin American style

New technology and marketing are enabling Latin American television stations to look beyond their individual home markets but to create both cultural and political problems. During the recent troubles in Guatemala, one television station was fired on. Page 23

### China raises cash in HK

In the past six months companies in Hong Kong, especially mainland-backed companies, have raised HK\$40bn (\$5.2bn) in new equity, excluding warrants. Much of this money has been raised specifically for China, underlining Hong Kong's growing importance as a supplier of capital to the mainland. Page 25

### Norsk Hydro surges

Norwegian energy group Norsk Hydro lifted first-half net income to Nkr2.83bn (\$361m) from Nkr900m a year ago after a pre-tax gain of Nkr2.5bn from the sale of its stake in chocolate-maker Freix Merabou. Page 25

### Gas development thwarted

The potential of Indonesia's Nabura Field in the South China Sea has kept the gas industry enthralled since its discovery 20 years ago but development has been held back by both production difficulties and a financial dispute between the state-owned company Pertamina and Exxon of the US. Page 32

### Market Statistics

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30-day ending rates	40	London share service	33-38
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Boeing	28	Norsk Hydro	25
Boeing	28	Norsk Hydro	25

### Chief price changes yesterday

FRANKFURT (DM)	PARIS (FF)
AD Ind & Wrt	1078 + 34
Boeing	514 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14

NEW YORK (Dollars)	PARIS (FF)
AD Ind & Wrt	1078 + 34
Boeing	514 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14
Boeing	430 + 14

## Boeing shares rise despite sales warning

By Martin Dickson in New York

BOEING, the world's largest commercial aircraft manufacturer, yesterday reported a slight drop in second quarter net income and warned that a trend towards lower sales would continue into 1994 because of the global economic slowdown.

However, the company's shares rose sharply in morning trading on the New York Stock Exchange, to stand at \$39, up 1 1/4% at lunchtime, because its results

were substantially ahead of analysts' expectations.

The company reported net earnings of \$426m, or \$1.25 a share, on sales of \$7.98bn for the second quarter, compared with \$432m, or \$1.27 a share, on sales of \$7.8bn in the same period last year. Analysts had been expecting earnings per share of around \$1.05.

Mr Frank Shrontz, chairman, said second-quarter sales were higher than the first quarter's \$6.5bn because of the timing of commercial jet deliveries.

In the first six months, Boeing earned \$751m, or \$2.21 a share, down from the \$852m, or \$2.50 a share exclusive of accounting adjustments in the same period of 1992. Sales fell from \$15.79bn to \$14.63bn.

The drop in first-half earnings was due mainly to lower sales in its commercial aircraft and defence and space businesses. Boeing delivered 202 commercial aircraft in the period, down from 243 in the first half of 1992. Defence and space sales were around 14 per cent lower.

Mr Shrontz said Boeing continued to expect full-year sales of around \$26bn, down from \$30.2bn in 1992.

Second-half sales would be about 20 per cent lower than the first half, and this was consistent with cuts in production already announced by the company.

"Based on current programmes and schedules, the trend of lower sales levels will continue through 1994," said Mr Shrontz.

"New orders for commercial trans-

ports continue to be below current delivery rates, and some customer requests to reschedule existing orders continue to be negotiated."

However, the company said operating profit margins on commercial jets were expected to be "substantially maintained" as Boeing moved into this period of lower production. Margins also continued to improve in the defence and space business.

Boeing's firm backlog at the end of June totalled \$80.8bn, down from \$87.5bn at the end of 1992.

## VW and Suzuki quit joint project

By Christopher Parkes in Frankfurt

VOLKSWAGEN and Suzuki have abandoned a planned joint venture to develop and manufacture a mini-car for the European market. The German company said both sides had agreed the project was no longer feasible because of recession.

The Japanese group said it had accepted a VW proposal to stop now, but added that it would continue to develop a car on the basis of results achieved so far.

The two companies had settled on the final design and were discussing cost-sharing when the axe fell, Suzuki said.

The plan called for up to 150,000 vehicles a year to be built at the Barcelona factory of Seat, VW's Spanish subsidiary.

The cancellation is a further indication of VW's rigorous efforts to cut costs and return to profit. It follows the company's withdrawal last year from a similar deal with SME, the Swiss watchmaker, to develop a high-fashion "Swatch car".

Both projects were part of a strategy, developed under the leadership of Mr Carl Hahn, the VW chairman who handed over to Mr Ferdinand Piech last January, to give Volkswagen a leading position in the small car market.

Growth in demand for smaller cars is expected to outstrip that for most other classes from the latter half of this decade.

VW is working on its own Chileo model to meet demand for cheap cars better suited to urban traffic conditions in western Europe and the spending power of people in the former eastern bloc.

At the same time, the German carmaker is continuing development of a super-lean, low-cost manufacturing process introduced by Mr José Ignacio Lopez de Arriortua, appointed production director after he joined the group in March from General Motors.

Suzuki, in which GM has a small equity stake, had hoped to reap cost-sharing benefits from the mini-car deal and to gain a manufacturing foothold in continental Europe.

Although most of the Barcelona factory's output was to be sold under the Seat marque, some cars were to be marketed under the Suzuki name.

Suzuki makes around 35,000 four-wheel drive vehicles a year at its Santana works in Spain and started making small cars in Hungary last year. Output at the Hungarian works, estimated at 15,000 units in the year to October, is planned to rise to 50,000 in the medium-term.

## Andrew Bolger on why the UK business information group has parted with cash Reuters to buy £350m of its own shares

REUTERS, the international news and information group, is to spend up to £350m (\$525m) buying back its own shares in the largest repurchase operation by a British company since the mid-1980s. News of the plan, under which Reuters would take back 5.8 per cent of its equity, sent the shares up 35p to £14.40.

Reuters had planned to unveil the scheme today with interim results. Press speculation forced it to bring forward the news.

Shareholders will receive £14 per share, but tax credits will

make it worth as much as £17.25 to tax-exempt gross income funds. The tax credits mean individual shareholders will receive £16.25, but that will be subject to capital gains and income tax.

Reuters had £10m net cash at its December year-end. It promised in March to consider ways of returning cash to shareholders - either by a special dividend or share buy-back.

Sir Christopher Hogg, chairman, said: "Whilst the main purpose of the repurchase is to provide shareholders with the

opportunity either to receive a cash distribution or to have an equivalent enhancement of their investment in Reuters, the board believes that all shareholders will benefit from the repurchase since it should lead to an increase in Reuters' earnings per share."

As part of the scheme, the 84 per cent of the group's equity held as American Depository Shares will also receive a UK tax refund. The tax credit arises because the Inland Revenue views such cash distributions as dividends, on which advance cor-

poration tax is payable, which may be reclaimed.

Sir Christopher said: "The difference between a special dividend and buy-back are quite marked. We like this scheme because it gives shareholders a choice - they can either take the cash, or have an enhanced stake in the company."

Mr Peter Job, chief executive, said: "We have absorbed two messages from shareholders - they want us to continue to invest in the business, but they don't want us to invest just for

the sake of investing."

Reuters said its decision followed a review of long-term capital requirements for existing businesses. "A realistic assessment of the timing of these requirements indicated that a sizeable amount of Reuters cash would continue to benefit profits only by virtue of being invested in money markets. Current initiatives and plans could comfortably be funded from Reuters' substantial financial resources."

Editorial comment, Page 19; Lex, Page 20; Stock Exchange, Page 33

## One dainty step off a mountain of money

Sir Christopher Hogg said bluntly: "Too much cash is a curse, not a blessing."

The chairman of Reuters Holdings was explaining why the business information and news group had decided to hand back up to £350m of its growing cash pile to shareholders through a share repurchase scheme.

Sir Christopher said he felt "a bit strange" about the operation, which has been months in the planning. "It's a rational decision, but goes against the grain of conventional wisdom - that managers who don't sit on a cash pile need their heads examined."

He insisted that the decision was brave one: it showed the group was anxious to guard against becoming "slippy" with cash, and against the risk of not looking hard enough at the performance of existing businesses. "Any fool can spend money, the challenge is to spend it wisely."

Reuters, the leading supplier of information and transaction products to the world's financial centres, has been adjusting to a lower-growth environment after the boom years of the 1980s.

After enjoying compound growth of 25-30 per cent per annum until a few years ago, the group will be content with double-digit revenue growth this year. This means it no longer needs the huge increases in working capital which were required at the peak of the boom.

Sir Christopher said capital expenditure continued to be on a long-term "rising trend". Last year it rose from £148m to £194m, of which £101m was spent on subscriber equipment.

Yet even that increase made little impact on the group's cash pile, which grew from £503m to £710m. Pre-tax profits rose by nearly 13 per cent to £383m - an impressive performance for a company struggling with recession in its main markets.

Sir Christopher believes that

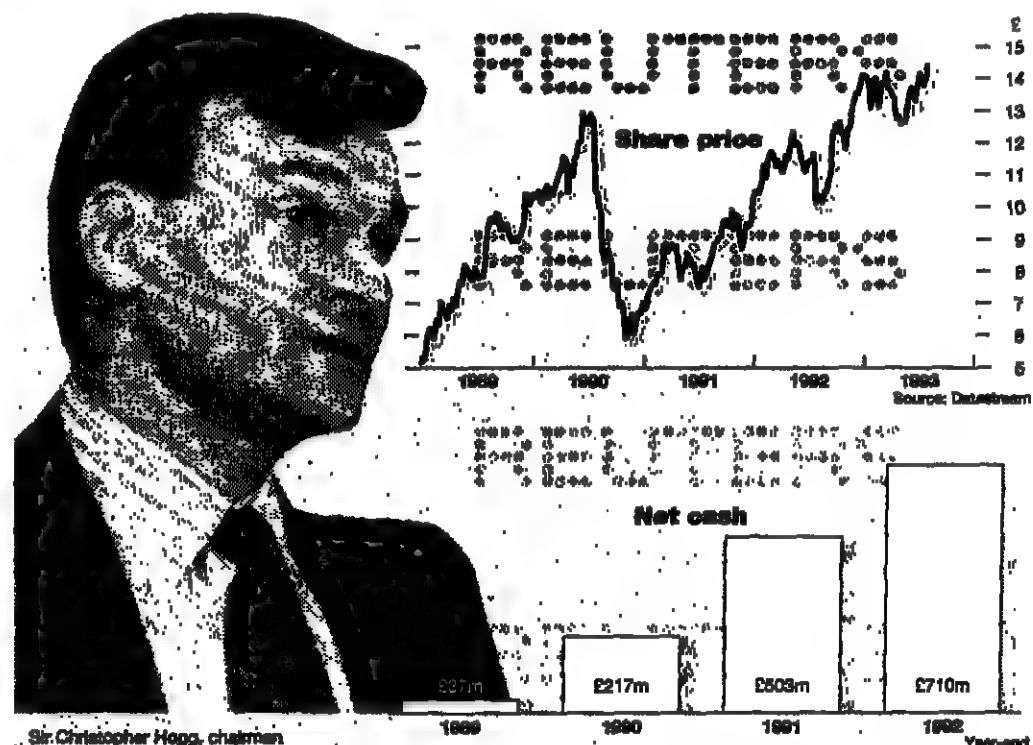
Reuters should continue to concentrate on specialist markets which allow maximum exploitation of its advanced technology. "Strategy will be unfolded in a measured manner designed to retain Reuters' focus and ensure that its products will continue to be differentiated by their careful targeting and close technical integration."

Mr Peter Job, chief executive, was confident that the group's expertise in news-gathering, database management and global network management made it well placed to meet the growing demand for sophisticated products in the financial services industry and the media. "Timely investments in video news-gathering and dissemination will allow Reuters to make the necessary enhancements to its product line as multi-media technology develops gradually into practical applications."

Reuters last year took full control of Vlnews, the international television news agency, renaming it Reuters Television, and has also joined the consortium which owns Independent Television News. Last month it announced plans to launch a Hispanic satellite news service with BBC World Service Television.

The former Visnews offices and the Reuters news bureaux are being combined, with the aim of correspondents being able to file video pictures as well as words. Eventually the 20,000 Reuters screens worldwide will be able to offer subscribers live pictures of occasions which can move the market, such as a major bank rate announcement.

Mr Job said the emerging "multi-media" world offered big opportunities, but also great scope to lose a lot of money, and he was determined to proceed cautiously. "We will limit acquisitions or diversifications to things which add spice to, or leverage, the core businesses."



Sir Christopher Hogg, chairman

Reuters' measured approach also reflects another concern - the group's realisation that it cannot afford to be complacent about its position as provider of financial information and transaction products, which together account for 98 per cent of group revenue.

The UK group maintains a dominant position, but is being increasingly challenged by rivals such as Telegraf, Knight-Ridder and Bloomberg, all of which have targeted its blue-chip customer base and high profit margins.

At today's results meeting, Reuters will be quizzed on the progress of its latest products, Dealing 9000-2, which offers automated foreign exchange trading, and Globex, which serves the financial futures and options market.

## Champagne doldrums hit LVMH in first half

By Alice Rawsthorn in Paris

LOSSES in the champagne business were the main reason for a 20 per cent fall in net profits at LVMH, one of the world's largest luxury goods groups, in the first half of the year.

The profits figure slid to FF1.03bn (\$175m) from FF1.29bn in the first six months of 1992.

Mr Bernard Arnault, chairman, last month warned of a fall in first-half profits, but did not specify how steep. However, he also said he hoped that profits would at least be maintained in the full financial year.

News of the profits fall from LVMH comes at a sensitive time for the luxury goods industry, which has been badly affected by recession and changing consumer tastes. Gucci, another leading group, is in turmoil as Mr Maurizio Gucci, chairman and grandson of the founder, struggles

to break the deadlock on control of the company.

LVMH, which owns a string of prestigious products including Christian Dior perfumes, Hennessy cognac and Louis Vuitton luggage, increased sales by 3.6 per cent in the first half to FF10.04bn.

Turnover rose in every area of activity except champagne. The champagne division, including the flagship Moët-et-Chandon brand, saw sales fall 7.4 per cent to FF1.8bn and made a net loss of more than FF100m due to weak demand and rising raw material prices.

Perfume was the strongest sector with sales rising 12.4 per cent to FF2.85bn, reflecting the success of new products such as Dior's Dune and Givenchy's Amarige. Luggage sales rose 4.6 per cent to FF2.43bn with cognac and spirits sales up 2.3 per cent to FF2.55bn.



Bernard Arnault, chairman

Champagne were the main cause of LVMH's first-half difficulties, the group also suffered from the effects of the strong franc on its international interests, particularly in the UK where sterling weakened against the franc following the September currency crisis.

Gucci deadlock, Page 22

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## INTERNATIONAL COMPANIES AND FINANCE

# BMW chairman in profits warning as sales slide 9%

By Christopher Parkes  
in Frankfurt

**SALES AT BMW**, the German luxury car manufacturer, fell 9 per cent to DM14.7bn (\$8.5bn) in the first half of this year, and profits suffered from the "known leverage effects" of such a decline, according to Mr Bernd Pischetsrieder, group chairman.

Even so, the group had to reduce production by only 10 per cent to 275,000 units, while the German motor industry overall had cut output by a quarter, he said.

At the same time, BMWs were the most sought after cars in their class in western Europe, he said, and the group had managed to adapt output

without short-time working, which has been widespread in other companies.

Earnings figures, and more details of Mr Pischetsrieder's plans, are expected to be announced tomorrow. In the first half of last year, the group earned a net DM421m on sales of DM16.3bn. Analysts expect full-year profits of around DM500m, compared with DM736m in 1992.

Mr Pischetsrieder, who took charge of the group in May, indicated that he wanted to build world market share - currently 1.7 per cent - and improve efficiency so "we can earn money with sales of 500,000".

Last year, the group delivered 595,000 cars to distribu-

tors.

At present the group has capacity to build 560,000 cars a year in Germany. The planned opening of a new works - its first outside Germany - in South Carolina in 1995 will increase the total by 70,000, or 13 per cent.

Mr Pischetsrieder also suggested that the group might attempt to build its international position by making cars smaller than its current entry-level models, the 3-Series.

For the present its most important projects were the US works and building sales in south-east Asia and China. Volume sales rose 23 per cent in the US in 1992, contributing 11 per cent of group turnover.

# Stronger franc hits Moulinex exports

By Alice Rawsthorn in Paris

**MOULINEX**, one of France's largest manufacturers of kitchen appliances, stayed in the red during the first quarter of this year with a pro forma net loss of FF16m (\$2.7m), against FF90m in the same period of last year.

The group, which has been burdened by heavy debts since the takeover two years ago of Krups, its German competitor, has been badly affected by the slowdown in the European electrical appliances market, where it faces fierce competition from the multinational electronics groups.

The first-quarter loss, which follows the announcement earlier this year that Moulinex fell into a net loss of FF115m in 1992 from net profits of FF171m in 1991, reflects both competitive market conditions and the impact on exports of the French franc's strength since the September currency crisis.

Turnover rose by 4 per cent in the first quarter, but fell by 10 per cent to FF1.83bn in the second quarter, producing a fall in sales of nearly 4 per cent to FF3.69bn for the first half of 1993.

The deterioration was mainly due to economic instability, and adverse exchange rates in Italy, Spain and the UK, which account for one-fifth of total sales.

However, Moulinex - which has changed its year-end from December 31 to March 31 - managed to increase sales in France, Germany, the US (for the Krups brand) and eastern Europe.

● Credit Agricole and Banque Sofinco, a subsidiary of Suez, have agreed to collaborate in the area of consumer credit, Reuter reports from Paris.

Credit Agricole plans to launch a revolving credit product attached to a bank card and Sofinco will provide the expertise to manage the business. The deal is initially to run for five years, after which Credit Agricole may take a stake in Sofinco. Suez will retain majority control of Sofinco.

# Gucci chief moves to end deadlock

By Haig Simonian  
in Milan

**MR MAURIZIO Gucci**, chairman and joint shareholder of Italy's Gucci luxury goods group, yesterday offered to sell his 50 per cent stake or buy out the Investcorp banking group, the joint owner, in an attempt to break the deadlock facing the company.

"Let's put our bids in two sealed envelopes. Whoever offers the larger amount can have the other partner's shares", he suggested.

Last week, Investcorp initiated legal proceedings in the

US in an effort to raise the pressure on Mr Gucci, whom it accuses of mismanaging the company.

The Bahrain-based bank also won a temporary freeze on Mr Gucci's shares.

Mr Gucci, who announced unspecified legal actions against Investcorp in Italian and other courts, accused Investcorp of deliberately damaging the company in an attempt to force him to sell his holding.

He said that relations between the two partners, which share control of the group founded by his grandfa-

ther 70 years ago, had virtually broken down over the past seven months.

Mr Gucci declined to speculate on why Investcorp had blocked decision-making at the group, which is facing serious difficulties. Mr Gucci said Investcorp had gone so far as to obstruct attempts to secure repayment of L104bn (\$64.8m) due to Gucci's Italian holding company from its US subsidiary. As a result, the holding company's balance sheet had deteriorated from being L19.1bn in credit with banks to a L65bn deficit at the end of last April.

Mr Gucci denied that he had been forced to pledge his shares to obtain bank loans. According to Investcorp, such actions would have invalidated the shareholders' agreement between the two parties.

The agreement gives either side the right of first refusal in the event that the shares change hands.

Mr Salvatore Sanso, a lawyer for Mr Gucci, admitted to "problems" earlier this year, but asserted that control of the Gucci shares had never been lost and there was no question of their ever having been pledged to a bank.

# Fog clears from Montedison loss

Haig Simonian reports on the allegations surrounding the group

**SHAREHOLDERS** crowded into the glass-topped ground-floor assembly hall of Montedison's Milan headquarters last month were shocked to discover their group, already rocked by revelations of higher-than-expected borrowings, had lost L435bn (\$271m) more than previously revealed.

No adequate reasons for the higher loss, revised upwards to L1.679bn from L1.244bn, were given. The only comment from Mr Carlo Sama, then Montedison's managing director, was that the additional figure stemmed from a credit by Financing and Investments, a hitherto-unknown Curacao-based subsidiary, which had proved to be "irrecoverable".

In the four weeks since then, Mr Sama has landed in jail, accused, like three others arrested over the weekend, of falsifying company accounts and illegal political funding. Meanwhile, Mr Gabriele Cagliari, the former chairman of the state-owned Eni energy and chemicals group, and Mr Raul Gardini, the former head of the quoted Ferruzzi Finanziaria (Ferruzzi) holding company, which controls Montedison, have committed suicide.

The link is Mr Giuseppe Garofano, the former senior Ferruzzi and Montedison executive who returned from hiding earlier this month to give himself up to Milan magistrates investigating political corruption.

Mr Garofano has sketched a diagram of both political and corporate corruption, which in the case of the ill-fated Enimont joint venture between Eni and Montedison, clearly overlapped.

His testimony, widely leaked and believed to be reliable, may have influenced Mr Cagliari's decision and almost certainly affected that of Mr Gardini, who would have been arrested along with Mr Sama and the others had he not apparently committed suicide.

According to Mr Garofano, much of Montedison's extra L435bn loss stemmed from financial transactions designed to cover up heavy commodity trading losses incurred by the Ferruzzi group in 1989.

That was when Ferruzzi, then run by Mr Gardini, was forced by the Chicago Board of Trade, the world's leading futures exchange, to unwind huge positions in 1989. The US Commodity Futures Trading Commission demanded the operation as they claimed Ferruzzi had been trying to corner the market in soybean futures. If successful, it could have forced other traders into making highly expensive purchases of soybeans, whose prices were already rising as a result on the cash market.

The clash with the CBO left Ferruzzi nursing a \$2m fine and a \$150m trading loss incurred from unwinding positions. The impact was reflected in Ferruzzi's 1990 accounts.

However, Mr Garofano's testimony suggests the actual loss was actually about \$350m to \$450m. To hide its true size, Mr Gardini allegedly authorised a financial window-dressing by which the non-declared losses were shifted off Ferruzzi's balance sheet and parked with obscure, non-consolidated Montedison subsidiaries. The losses were masked by "back-to-back" financial transactions with so far unnamed banks, which lent money to cover the gap in the accounts.

The reason the loss suddenly appeared last month was because of Ferruzzi's mounting financial difficulties. In late May, the company and the controlling Ferruzzi family called in five big Italian banks to restructure the affairs of the group, now facing borrowings of about L81,000bn. One of the first moves by the banks, perhaps aided by tip-offs, was to pick through the group's accounts, leading to the discovery of the irregularities in Montedison's balance sheet.

The Chicago debacle is only one, though perhaps the biggest, of a number of irregularities disclosed by Mr Garofano. His leaked testimony suggests the Enimont joint venture was a source of huge kickbacks to Italy's political parties.

Magistrates unpeeling Italy's political corruption scandal over the past 17 months have

increasingly suspected that Enimont lay close to the core. The doubts have focused on the circumstances surrounding the creation of the group, owned 40 per cent each by Montedison and Eni, with the remainder floating, and its termination in November 1989.

Mr Garofano's allegations, published yesterday in a weekly news magazine after an extract was released last Thursday evening, focus on the creation of a L300m to L1000m pool of off-balance sheet funds, created through undeclared capital gains on certain property transactions. These were allegedly used to finance donations to political parties via Eni as part of the deal by which Montedison sold its stake in Enimont to its public-sector partner.

The allegations also suggest members of the Ferruzzi family may have been cavalier in distinguishing between monies attributable to Serafino Ferruzzi, the ultimate family holding company, which owns about 48 per cent of Ferruzzi, and the accounts of the public companies.

Through the sums involved are much smaller than those linked to the kickback allegations over Enimont, the allegations recall similar claims about other corporate collapses, such as the Maxwell group or Polly Peck in the UK, where a quoted group was dominated by a single family shareholder.

# St James's pays out £137m

By Meggie Urry in London

**ST JAMES'S Place Capital**, the UK financial group, is to give shareholders its 37.5 per cent stake in RIT Capital Partners, worth £104m (£136m), plus £32.7m in cash, in a move which will disentangle Lord Rothschild's two companies.

The distribution - subject to shareholder and court approval - was announced by Lord Rothschild and Sir Mark Weinberg, joint chairmen of SJPC, at yesterday's annual meeting.

By giving the stake in RITC to shareholders, SJPC is indicating that it will become a

more focused financial services group rather than an investment company, said Mr Clive Gibson, a SJPC director.

SJPC would look at acquisitions in the financial services area and also be ready to put more capital into its existing businesses, he said.

Rises in SJPC and RITC's asset values since the March 31 year-end were also announced. SJPC's net asset value had risen from 107.7p to 123.4p a share or \$335m, while RITC's had gone up from 181.1p to 195.6p or \$417m.

The RITC stake is SJPC's largest investment, represent-

ing 37 per cent of year-end assets. SJPC's other interests include insurance, through its stake in J. Rothschild Assurance; fund management, through J. Rothschild Investment Management; and J. Rothschild Capital Management - which manages the RITC portfolio - and a 29.7 per cent stake in Global Asset Management; and in investment banking.

RITC is an approved investment trust. It recently sold most of its largest investment, a holding in Newmont Mining, which was worth £130m in March.

# Midland to buy TSB leasing arm

By John Gapper,  
Banking Correspondent

**TSB GROUP** of the UK yesterday continued its disposal of businesses outside its retail banking core by agreeing to sell Swan National Leasing, its vehicle contract hire business, to the leasing arm of Midland Bank.

Forward Trust Group, the Midland subsidiary, will pay £182.5m (\$273.75m) for SNL. The sum includes £57.8m for the assets and £124.6m to repay debt finance provided to

the leasing business by TSB.

The deal follows a setback last week in TSB's disposal programme, when it disclosed it had failed to agree a selling price to place its estate agencies in a joint venture with National & Provincial Building Society.

The move leaves TSB with the Eurodollar car rental business of SNL, which may be sold through a management buy-out.

TSB has also been trying to dispose of its Hill Samuel investment banking arm.

TSB would make an exceptional gain on the sale of £30.5m this year, as well as releasing £27.5m in capital. It would have to deduct a "relatively small" amount from the profit figure as an adjustment to goodwill written off in reserves.

TSB has signalled that it intends to dispose of a variety of non-core businesses in order to return to its retail banking roots, from which it diversified unprofitably after its flotation in 1987.

Lex, Page 20



## Golden Hope Plantations Berhad

(Incorporated in Malaysia)

### NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Seventeenth Annual General Meeting of the Company will be held at the Pacific Ballroom, Pan Pacific Hotel, Jalan Putra, 50746 Kuala Lumpur, Malaysia, on Wednesday, 11th August, 1993, at 11.30 am for the following purposes:

#### A. ORDINARY BUSINESS

- To receive and adopt the Report of the Directors, the Audited Accounts for the year ended 31st March, 1993, and the Report of the Auditors thereon.
- To declare a final dividend for the year ended 31st March, 1993.
- To approve the Directors' fees for the year ended 31st March, 1993.
- To re-elect Tuan Hj. Mohammad bin Abdullah as Director.
- To re-elect Enik Abdul Rahman bin Ramli as Director.
- To consider and, if thought fit, pass the following resolution as a resolution pursuant to Section 129(6) of the Companies Act, 1965:  
"That pursuant to Section 129(6) of the Companies Act, 1965, Tun Ismail bin Mohamed Ali be re-appointed Director of the Company to hold office until the conclusion of the next Annual General Meeting."
- To consider and, if thought fit, pass the following resolution as a resolution pursuant to Section 129(6) of the Companies Act, 1965:  
"That pursuant to Section 129(6) of the Companies Act, 1965, Enik Howe Yoon Chong be re-appointed Director of the Company to hold office until the conclusion of the next Annual General Meeting."
- To re-appoint Messrs. Ernst & Young as the Company's auditors and to authorise the Directors to fix their remuneration.
- To transact any other ordinary business of the Company of which due notice has been received.

- (Ordinary Resolution 1)  
(Ordinary Resolution 2)  
(Ordinary Resolution 3)  
(Ordinary Resolution 4)  
(Ordinary Resolution 5)  
(Ordinary Resolution 6)  
(Ordinary Resolution 7)  
(Ordinary Resolution 8)

#### B. SPECIAL BUSINESS

By way of special business to consider and, if thought fit, pass the following Ordinary Resolutions:

##### ORDINARY RESOLUTION 9

That the Company hereby approves and adopts a policy whereby the Company, its subsidiary companies and its associated companies (both as defined below) shall be entitled to dispose of vacant bungalow lots and properties in development projects undertaken or to be undertaken from time to time by them respectively to the directors (including non-executive directors) of the Golden Hope Group at such discount not exceeding 5 per cent (save and except for Negara Properties (M) Berhad and its subsidiary companies and associated companies where the discount shall not exceed 10 per cent) and on such other terms and conditions as may be determined from time to time by the directors of the Company disposing of the properties.

##### ORDINARY RESOLUTION 10

That the Company hereby approves and adopts a policy whereby the Company, its subsidiary companies and its associated companies (both as defined below) shall be entitled to dispose of vacant bungalow lots and properties in development projects undertaken or to be undertaken from time to time by them respectively to the employees of the Golden Hope Group at such discounted prices, no less favourable than that given to the directors of the Golden Hope Group and on such other terms and conditions as may be determined from time to time by the Board of Directors of the Company disposing of the properties.

##### ORDINARY RESOLUTION 11

That where a compulsory discount is imposed by virtue of any requirements set by government authorities this shall be added on to the applicable discount rates of the employees and directors who are entitled to the aforesaid compulsory discount, subject to such limits as may be imposed by the Board of Directors of the Company disposing of the properties.

##### ORDINARY RESOLUTION 12

That the aforesaid policies shall be effective as from 1st January, 1993, until such time as they may be revoked or varied by resolution of the Company in general meeting.

##### ORDINARY RESOLUTION 13

That the aforesaid employees and directors be hereby authorised to purchase the properties in accordance with the aforesaid policies.

##### ORDINARY RESOLUTION 14

That the act of Dr. Ng Chong Kin, as representative of the Company at the Thirty-Fourth Annual General Meeting of Negara Properties (M) Berhad held on 10th August, 1993, in voting in favour of resolutions adopting the aforesaid policies in respect of Negara Properties (M) Berhad and its subsidiary companies and associated companies which were passed by the stockholders, be hereby approved and ratified.

#### Notes:

- The term "subsidiary companies" as herein used in relation to a particular company means companies incorporated in Malaysia which are subsidiaries within the meaning of the term in Section 5 of the Companies Act, 1965.
- The term "associated companies" as herein used means companies incorporated in Malaysia in which the Company or Negara Properties (M) Berhad holds at least 20 per cent of the issued ordinary share capital.

By order of the Board

Norlin Binte Abdul Samad  
Secretary

Kuala Lumpur  
27th July, 1993

#### Notes:

- A member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies but not exceeding two, to attend and vote in his stead. Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his holdings to be represented by each proxy. A proxy need not be a member of the Company but must attend the meeting in person to vote. If he is not a member, he must be an advocate, an approved company auditor or a person approved by the Registrar of Companies in a particular case [Section 149(1)(b) of the Companies Act, 1965]. The instrument appointing a proxy must be deposited at the Company's registered office, 13th Floor, Menara PNB, No. 201-A, Jalan Tun Razak, 50400 Kuala Lumpur, not less than 48 hours before the time for holding the meeting or any adjournment thereof.
- If the dividend is approved at the Annual General Meeting, it is intended that the warrants be payable on 8th November, 1993, to shareholders registered in the books of the Company at the close of business on 8th October, 1993.

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## INTERNATIONAL COMPANIES AND FINANCE

## Chevron profits slide to \$50m as charges take toll

By Richard Waters in New York

PROFITS at Chevron, the US energy group, have been hit by restructuring charges of \$552m to cover the proposed disposal of two refineries and 200 service stations. The group was left with net income for the second quarter of \$50m, or 15 cents a share, down from \$151m, or 52 cents, a year ago.

Before net special charges of \$515m, earnings rose to \$555m from \$354m in the same 1992 period on a comparable basis, on turnover down from \$10.5bn to \$9.9bn.

Chevron has moved further than most other large US oil and gas groups in cutting costs to counter the over-capacity in the US refining business.

Mr Ken Derr, chairman, said average costs in the first half were \$6.54 a barrel, 87 cents lower than in 1991 and ahead of the company's target cost reductions.

Second-quarter operating results were supported by a rise in US exploration and production earnings, to \$207m from \$121m (or \$146m before special charges), helped by the higher natural gas prices.

Higher prices have bolstered the profits of all the big US energy groups.

International upstream earnings fell to \$142m from \$157m as a result of special charges, though they were \$17m up, at \$147m, before charges.

US refining and marketing returned a loss of \$50m due to

the restructuring charges, though Chevron said sales margins had improved, especially in the south-east.

International downstream earnings jumped from \$42m to \$107m, helped by a \$13m contribution from a disposal and by higher margins and sales.

Earnings from chemical operations were flat at \$6m, before a \$135m gain on the sale of the group's Orinoco lawn and garden products business.

Net income for the first half, at \$551m, was down from \$655m last time, before the effects of accounting changes. Leaving aside special charges in both periods, earnings rose from \$607m to \$1,068m.

Second-quarter net income at Phillips Petroleum rose to \$121m, or 46 cents a share, from \$100m, or 38 cents, a year ago. The advance was attributed to higher natural gas prices and lower worldwide exploration expenses.

Earnings were held back by \$16m of charges related to litigation claims and foreign currency losses, compared with special credits of \$10m in the 1992 quarter.

First-half net income of \$182m (\$194m before special charges) compared with a loss before accounting changes in the first six months of 1992 of \$8m (a profit of \$61m after leaving aside one-off charges).

Mr CJ Siles, chairman, warned: "Natural gas and crude oil prices have declined recently, and downstream margins continue to be depressed."

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US refining and marketing returned a loss of \$50m due to

## American Cyanamid turns in \$166m loss

By Paul Abraham

AMERICAN Cyanamid, the US bioscience group, suffered a pre-tax loss of \$166m for the second quarter, compared with pre-tax profits for the same period last year of \$228m.

The loss was the result of an exceptional charge of \$378m for the acquisition of a 53 per cent stake in Immunex Corporation, the pharmaceuticals company that specialises in cancer treatments.

The loss per share was \$2.54, compared with earnings of \$1.62 in the second quarter last year.

Sales increased 2 per cent from \$1.48bn to \$1.51bn for the quarter. This was in spite of the strength of the dollar against European currencies, which reduced sales by about 2 per cent.

Turnover of the healthcare division, which includes its pharmaceutical subsidiary Lederle, fell during the second quarter. Although sales of vaccines increased, sales of consumer health products fell because of the strong dollar and lower sales of Prostap, the transdermal patch used to help stop people smoking.

Worldwide sales of the agricultural group rose during the second quarter compared with last year, mainly because of increased sales of crop protection products. Pursuit and Scepter, two herbicides for soybeans, did particularly well. American Cyanamid intends to acquire Rhel's crop protection business.

The chemicals division reported lower turnover, reflecting a programme of disposals in recent months. Operating income also fell because of the introduction of new accounting procedures for post-retirement benefits.

Research and development spending increased from \$278.9m for the first six months last year, to \$301m for the same period in 1993.

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## Latin American TV sheds parochial image

Television networks in the region have been converging, writes Damian Fraser

WHEN Mr Ricardo Salinas Pliego, the new owner of Mexico's television networks Seven and 13 was asked how he would compete with Televisa, the country's large media company, he quickly turned to the subject of help from foreign partners, such as NBC, Telemundo, Fox, TV Globo of Brazil and Radio Caracas Television of Venezuela.

A decade ago, Mr Salinas's reply might have seemed odd. Latin American television companies were parochial affairs, best known for their soap operas and lengthy coverage of presidential speeches.

They bought plenty of programmes from each other, but each country's market remained distinct.

However, television in the region has converged. The spur has been new technology which enables programmes to be broadcast cheaply throughout the region, and the growing marketing clout of Televisa and TV Globo.

It is possible to travel from Chicago to Buenos Aires and watch the same Spanish-language news; Brazilian, Mexican, or Venezuelan soap opera; or Cuban-American talk shows.

However, the inter-change of programming is far from complete since programmes being beamed across borders still face both political and cultural problems.

During the recent troubles in Guatemala, Televisa's Echo news programme, the main source of news, was briefly blocked by the government and its offices fired on by machine guns.

Frank discussions of teenage sex and other sensitive issues

by the Cuban-American talk show host Cristina, while perfectly normal in Miami, have caused some outrage in Madrid.

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Univision) and half of PanAmSat, the satellite company in the Americas.

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With the Hispanic market in the US rising, companies such as Time Warner and CNN of the US have started to produce their own Spanish-language programmes. There are more than 20m Hispanics in the US, and in 10 years they are expected to be the US's largest minority.

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## Campbell Soup plans large post-tax item

By Karen Zagor in New York

CAMPBELL Soup, the US food group, has warned that its 1993 earnings would include significant after-tax charges to reflect new accounting standards.

The company, which reports its fiscal year-end results in September, said it was adopting three new accounting standards.

The cumulative one-time charge against earnings will be between \$247m and \$260m, or 96 cents to \$1.03 a share. In addition, it will take its standard annual charge to earnings for employee medical benefits which will stand at \$18m, or 7 cents, in 1993.

Mr Frank Weise, chief financial officer, said Campbell would have a very strong balance sheet and credit rating even after the non-cash charges.

In fiscal 1992, the company posted net earnings of \$490.5m on sales of \$6.26bn.

Campbell's is adopting FAS 108 accounting for post-retirement benefits other than pensions, FAS 109 accounting for income taxes, replacing FAS 96 and FAS 112 accounting for post-employment benefits.

● Philips Electronics has filed a shelf registration with the US Securities and Exchange Commission for up to \$1.5bn of debt securities.

Net proceeds will be used to repay debt of the Philips Group and for general corporate purposes.

No underwriters were listed in the filing.

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## INTERNATIONAL COMPANIES AND FINANCE

## French bank names new MGM head

By Martin Dickson  
in New York

CREDIT Lyonnais, the French bank which owns Metro-Goldwyn-Mayer, has brought in a new chairman and strengthened finances at the Hollywood film studio in preparation for MGM's eventual sale.

The new chairman and chief executive is Mr Frank Mancuso, former chairman of Paramount Pictures. He takes the place of Mr Alan Ladd Jr, who was ousted on Sunday after more than two years running MGM.

Mr Mancuso, 60, is a heavy-weight member of the Holly-

wood establishment who spent 30 years at Paramount but quit in acrimonious circumstances in 1991 when a new president was given effective control over the studio.

Credit Lyonnais took control of MGM in 1992 after foreclosing on loans it made to Mr Giancarlo Parretti, an Italian entrepreneur, who bought the company in 1990 for \$1.3bn.

It has also announced three steps to improve the studio's finances and support an expanded programme of film and television production.

MGM Holdings Inc, the holding company that the bank set up to own MGM, will assume some \$900m of the stu-

dio's \$1.1bn of bank debt.

The studio will cut its interest expenses by redeeming \$221m of debentures held by MGM Holdings, and will fund this substantially by selling its cinema assets to the holding company. The cinema chain is one of the largest in Europe, with more than 400 outlets.

The bank is also increasing the studio's credit line to \$400m from \$190m.

Mr Francois Gille, director general of Credit Lyonnais, said the financial moves would give MGM a debt-to-equity ratio of about 1.2 and the flexibility to "pursue a full business agenda".

This includes revival of the studio's dormant film company, United Artists, to give MGM two production arms.

The deal was largely put together by Mr Michael Ovitz, head of Hollywood's powerful Creative Artists Agency, who was retained earlier this year to advise Credit Lyonnais.

US law forbids banks to hold equity stakes in companies except in exceptional circumstances, and Credit Lyonnais has until 1997 to dispose of the studio.

Mr Gille said that before it did so it was "committed to fully rebuild MGM as the best way to maximise the value of our investment".

## Loss at Zenith deepens to \$24m

By Karen Zagor in New York

ZENITH Electronics, the sole surviving US manufacturer of television sets, yesterday unveiled a second-quarter net loss of \$24.7m, or 79 cents a share.

A year earlier, the company suffered a net deficit of \$15.2m, or 52 cents, including royalty income of \$13m and a special tax credit of \$4m. In the 1993 quarter, royalty income was \$5m.

Sales slipped slightly to \$274.7m from \$286m a year earlier.

Increased shipments of colour televisions in the latest quarter were offset by declining shipments of other electronics products.

Although the company said it was still feeling the impact of industry price cuts for colour televisions last year, it benefited from higher sales volume and corporate cost reductions.

Zenith also said colour television prices had remained relatively stable this year.

The company said its operating loss, stripping out royalty income, narrowed to \$26m in the 1993 quarter from \$29m the previous year.

For the first six months, Zenith recorded a net loss of \$46.5m, or \$1.51, on sales of \$565.2m, against a deficit of \$43.8m, or \$1.50, on sales of \$545.2m in the same period of 1992.

## Improvement at Cummins disappoints Wall Street

By Karen Zagor

CUMMINS Engine, the world's largest independent manufacturer of diesel engines, yesterday disappointed Wall Street with its second-quarter results and the outlook for the third quarter. This was in spite of a substantial improvement in earnings.

For the three months to July 4, the company earned \$48.2m, or \$2.65 a primary share, compared with profits of \$18.8m, or \$1.14 a year earlier. Sales grew to \$1.08m from \$948.1m.

Cummins is benefiting from improving markets as the US claws its way out of recession. It said second-quarter sales were higher than in the first quarter in most of its important markets, including engines for North American

heavy-duty and medium-duty trucks and for industrial equipment.

On the other hand, sales of engines for light commercial vehicles fell in the quarter, and the company was also hurt by weakness in several international markets, especially Mexico.

Cummins said it expected third-quarter earnings and sales to trail earnings and sales in the first two quarters of 1993.

Sales to Chrysler are expected to fall sharply in the third quarter due to the changeover to the new T300 Series Dodge Ram.

Sales to some international markets are expected to remain weak, and third-quarter results are seasonally affected by holiday shutdowns by Cum-

mins and its biggest customers.

The outlook disappointed investors, who have been bullish about the company since April, when Cummins unveiled a strong improvement in earnings and forecast even better second-quarter profits.

On Wall Street, shares in Cummins tumbled \$4 to \$85 at mid-session. Most analysts had expected earnings of \$2.63 a share in the latest quarter.

For the first half of 1993, the group earned \$89.3m, or \$4.37, compared with a deficit of \$227.3m, or \$14.69.

Stripping out the impact of a \$251.1m charge for accounting changes in the first six months of 1992, Cummins earned \$28.8m, or \$1.25 last year. Sales advanced to \$2.14bn from \$1.83bn.

## Low prices hurt US paper group

STONE Container, the US paper and packaging group, yesterday reported a deeper second-quarter loss, saying it continued to be hurt by poor pricing conditions for most of its products, Benter reports.

It said that, except for recent improvements in newsprint prices, it was unable to raise prices for other products. Prices of most of its other products declined in the first half of 1993, the company said.

The second-quarter net loss was \$71.6m, or \$1.03 a share, compared with a net loss of \$40.7m, or 60 cents, a year earlier. Revenues were \$1.27bn, down from \$1.37bn last time.

"Even though linerboard has been under discounting pressure recently, we believe that conditions are favourable for price recovery beginning as early as this fall and perhaps lasting for a period of years," Mr Roger Stone, chairman, president and chief executive officer, said.

"Clearly, since the majority of our revenues are derived from this product line, we are looking forward to this favourable development," he added. The company said it planned to shut down temporarily six of its mills in the US and Canada.

The mills are scheduled to resume production during the third quarter, it added.

## Inco offsets slump in nickel

By Bernard Simon in Toronto

LOSSES at Inco, the international nickel producer, were virtually unchanged in the second quarter. A further slump in nickel prices was offset by improved results from the company's alloys business, lower interest charges and favourable currency movements.

The Toronto-based company suffered a loss of \$2.2m, or 3 cents a share, in the latest period, compared with a \$1.5m loss, also 3 cents a share, a year earlier. Revenues slipped to \$608m from \$681m, due largely to a 12 per cent fall in primary metal sales. Interest charges edged down to \$25.2m from \$27.5m and tax payments

were also slightly lower.

Operating earnings of the primary metals division dropped to \$31m from \$46m. The price of nickel realised during the quarter fell by 16 per cent to \$2.93 per pound, while copper, cobalt and rhodium prices were also lower.

However, unit production costs for nickel were 9 per cent lower in the second quarter. Inco does not disclose precise cost levels. The company said the drop reflected reduced employment costs and the weaker Canadian dollar.

The alloys and engineered products division, which is in the middle of a restructuring, turned a \$5m loss last year into an operating profit of \$4m. The improvement was ascribed to

lower operating costs and higher alloy shipments.

Finished nickel inventories rose to 71m lb on June 30 from 67m lb three months earlier. However, the company said stocks were likely to drop during the current quarter as a result of summer shutdowns at its Ontario and Manitoba operations.

Third-quarter earnings will be boosted by Inco's recent sale of its 62 per cent stake in TVX Gold, a gold producer. The sale has brought an after-tax gain of about \$125m, or \$1.14 a share, which will be used to reduce debt and for "general corporate purposes".

Long-term debt totalled \$972m on June 30, down from \$1.06bn a year earlier.

## Saudis take Dutch terminal stake

TEXACO of the US is selling a large part of its stake in a Rotterdam crude oil terminal to Saudi-controlled Aramco Overseas, giving the Saudis their first foothold in European storage facilities, AP-DJ reports from Amsterdam.

Texaco Raffinierderij Pernis said it would reduce its stake in the Rotterdam-based Texaco/Esso Maatschap Crude Oil Terminal, a joint venture formed in 1982 by Esso Nederland and Caltex Petroleum Maatschappij Nederland.

Aramco Overseas, a wholly-owned subsidiary of Saudi Arabian Oil Company, will acquire

a 34.35 per cent stake in the storage facilities, marking the group's move toward a more permanent presence in Europe. Previously, the company had used only of leased storage capacity.

Through the deal, Aramco would add an additional 6m barrels of storage capacity in the area to the 5m barrels the company leases from Faktank in Rotterdam.

The sale would leave Esso with a 42.85 per cent share, and Texaco with a 22.8 per cent stake, Texaco said.

A new company will be formed to operate the terminal,

which receives, stores and pumps crude oil for the Esso refineries in Rotterdam and Antwerp. The storage facilities can hold up to 17m barrels of crude oil.

Texaco said the proposed sale was meant to bring TRP's storage facilities into line with operating requirements. Those requirements have been reduced since 1988, the company said, when Texaco formed its Netherlands Refining Company joint venture with the British Petroleum.

This venture links two refinery sites, at Pernis and Europoort.

## Arvin builds up European side

US MOTOR components multinational Arvin Industries is to strengthen its presence in the European market for vehicle suspension systems through an Italian joint venture using technology from Japan, writes John Griffiths.

Arvin is buying, for an undisclosed sum, a 49.9 per cent stake in Way Assauto, which produces suspension struts, shock absorbers and stampings at Asti, near Turin. It is Italy's largest shock absorber manufacturer.

## Upjohn moves into China

UPJOHN of the US has formed a joint venture to manufacture pharmaceuticals in southern China, AP-DJ reports from Beijing.

Mr Ley Smith, the company's president, said the venture would invest an initial \$30m to build a plant in the city of Suzhou, 80km west of Shanghai.

Production of antibiotics, steroids and healthcare products is scheduled to begin in 1996.

The Michigan-based company will own 75 per cent of the joint venture, while the

Chinese partner, Suzhou Pharmaceutical Factory No 4, will own 25 per cent. The factory will have a western general manager and 200 Chinese employees.

Mr Smith said that, initially, almost the entire production of the plant in Suzhou would be used for the Chinese market. "As the business grows it's quite possible that some of the products may be exported," he said.

This is Upjohn's first important project in China, and others are planned.

## BCE arm warns on provisions

MONTREAL Trustco, the financial services arm of BCE, recorded a second-quarter loss of C\$22.8m (US\$17.5m) after special charges, against a deficit of C\$58.5m a year earlier after special items, writes Robert Gibbens.

The company warned that further special provisions were likely in the second half.

MT is one of BCE's last two non-telecommunications assets and may be sold soon. Talks have been held with at least two Canadian banks.

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## Norsk Hydro surges in face of prices pressure

By Karen Fossli in Oslo

NORSK HYDRO, Norway's biggest stock market listed company, yesterday reported a surge in first-half net income to Nkr2.53bn (\$361m) from Nkr933m a year ago, despite difficult market conditions and pressure on prices in all operating segments.

The sharp improvement was due to a pre-tax gain of Nkr2.5bn from the disposal of Hydro's 38.3 per cent stake in Freia Marabou, Scandinavia's biggest chocolate maker, which yielded proceeds, plus interest, of Nkr3.5bn.

Hydro's performance was also helped by lower production costs, higher crude oil production and a stronger dollar. Nevertheless, the group's average forecast of Nkr2.9bn. Second-quarter net income increased to Nkr2.12bn from Nkr986m last year.

Group first-half revenue rose by Nkr1.48bn to Nkr32.26bn and increased in the second

quarter by Nkr680m to Nkr15.797bn.

First-half operating income improved by Nkr511m to Nkr2.364bn, while rising in the second quarter by Nkr132m to Nkr923m.

"In spite of very adverse market conditions we have been able to improve our operating figures as a result of reduced costs and the stronger US dollar," said Mr Egil Myklebust, president and chief executive.

First-half foreign exchange losses widened to Nkr360m from a loss of Nkr1m in the same period last year. The group's financial position strengthened significantly as a result of the Freia Marabou disposal and the issue of \$300m and Nkr1.1bn debentures.

"The proceeds of these loans and the sale of shares on Freia Marabou will be used to repay medium-term bank loans," Hydro said. Group debt was reduced by Nkr4bn to Nkr23.2bn at the end of the second quarter from end-1992.

## Vard set to spin off ferry unit

VARD, the Norwegian cruise and ferry group, is expected shortly to spin off its ferry business, for which it will seek a listing on the Oslo bourse, writes Karen Fossli.

The move follows the end of negotiations, which have lasted four months, aimed at selling the ferry business for Nkr1.1bn (\$151m) to a group of foreign investors led by Union Bank of Switzerland.

Under the deal, Vard would

have retained a 20 per cent stake in the operation. It said yesterday it had ended the talks because the terms would have been unsatisfactory given the earnings prospects of its two ferry lines, Larvik Line and Scandil Line.

Vard is now looking at ways to convert some of the ferry business's debt to kroner from dollars and transferring a portion of that debt to the newly-created unit.

## China threatens to become Hong Kong's nemesis

Simon Holberton and Peter John examine growing unease over the mainland's rapid economic growth

SOME brokers and property agents in Hong Kong are wondering if China, the force behind the vertiginous heights to which Hong Kong's stock and property markets have risen, will prove the colony's financial nemesis.

Less than a month into the Chinese government's attempt to dampen economic activity on the mainland it is still too early to say if the Beijing authorities will succeed. Equally difficult is measuring the impact on Hong Kong's stock and property markets of such success.

For the past year mainland Chinese investors have been a large source of the liquidity that has buoyed asset prices in the colony. For that reason it has not been lost on Hong Kong's financial community that one of the prime targets of the mainland's current economic policy is speculative stock and property market investment.

In the past six months companies in Hong Kong, especially mainland-backed companies, have raised HK\$40bn (US\$5bn) in new equity, excluding warrants. Last year, companies raised HK\$70bn including warrants. Much of this money has been raised specifically for China, underlining Hong Kong's growing importance as a supplier

of capital to the mainland. However, rapid economic growth in China has brought in its wake resurgent inflation which the mainland authorities have taken measures to suppress. This has done two things: made people think twice about the near term growth prospects for China, and made them ask how much mainland money has been coming into Hong Kong.

Ms Janice Wallace, head of research at Goldman Sachs, says: "If these guys start taking their money home then we will feel it. Liquidity is the real threat to this market."

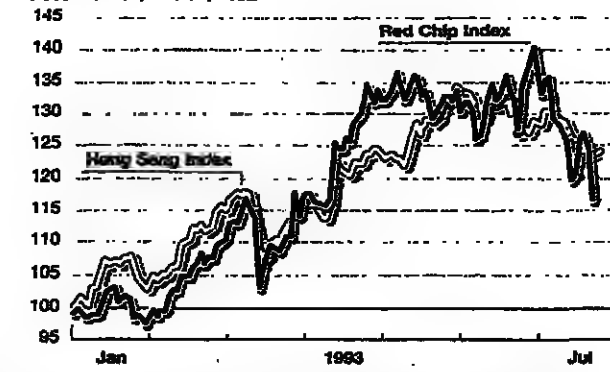
China-related stocks - known as "red chips" - account for more than 4 per cent of the value of Hong Kong's Hang Seng index, according to Wardley James Capel, Hong Kong.

Chinese officials have warned that mainland investment in Hong Kong will slow. In both Hong Kong and Macao, rumours abound about this project being deferred or that mainland partner withdrawing from a venture because he has come under pressure from mainland banks to repay debt.

But the euphoria in Hong Kong surrounding the flotation of nine large and medium-sized Chinese state-owned companies has waned. Tsingtao Brewery went well because it

### Red Chip Index vs Hang Seng Index

Indices released, Dec 31, 1992



The "red chip" index used by Dao-Heng has 26 constituents which are either companies substantially owned by mainland Chinese, or Hong Kong companies that derive considerable profits from operations in China.

Source: Dao-Heng Research

was the first of the nine to come to the market, and local Hong Kong investors knew its product well.

Shanghai Petrochemical, the second and largest entrant, was less successful. Its sale in Hong Kong suffered from the company being poorly marketed to investors - the Hong Kong tranche of 850m shares was just 1.7 times oversubscribed - and from being seen to be too highly priced.

Concerns about the Chinese

economy also took the lustre off the issue.

"A lot of interest in China stocks has been concept driven," says one analyst. "They came to the market boasting good backers and good contacts and with the promise that they would do good deals on the mainland. Now, with the retrenchment under way, it is difficult to see what they will do."

Mr Alex Tang, director of research at Dao Heng Secur-

ties, agrees. "On top of the concern about the economy is concern about the controlling shareholders of these companies. What will they put into these listings and will the businesses have good earnings potential? No one knows."

To date, foreign investors appear content to ride out what is seen as an essentially short-term correction. Mr Simon Nicholson, senior Far East investment manager for Gartmore Asset Management, agrees that there are problems.

"It will be a tricky six months in terms of markets," he says. "Hong Kong is saturated with new issues, rights issues and placements, and the whole worry about China is that the currency will steadily deteriorate."

The most enthusiastic investors are, unremarkably, the China funds which dedicate their cash to mainland concerns, targeting China plays principally but also unlisted Chinese companies.

There are more than 30 China funds with a total investment potential in excess of \$2bn. The problem they face, with the total capitalisation of the Shanghai and Shenzhen B shares hovering below \$1bn, is to find enough places to put their cash.

Kleinwort Benson's \$60m

China fund, which began operating last autumn, has so far placed only \$18.5m.

However, Mr Robin Fox, the fund's chairman, remains confident. "You only have to spend some time there to see how fast the country's growing," he says.

The jitters in the equity market have been echoed in property. Mainland interests own an estimated US\$10bn of residential and commercial property in the colony.

Mr Nicholas Brooke, senior partner of surveyors Brooke, Hillier, Parker, says: "We are seeing a reduction in the number of transactions and mainland interest in the property market. There has definitely been a cooling, but we have a number of large deals in the pipeline and there is no indication that the mainland counterpart has been told to pull out."

One thing that Hong Kong has in its favour is that no one, including the Chinese central government, knows the extent of mainland investment in the colony. This is because Hong Kong has become a place where the public duties of mainland Communist party officials overlap with their private financial interests. Mainland interests in Hong Kong, if asked, will be understating their assets in the colony.

## Westfield Trust defies recession

WESTFIELD Trust, the Australian shopping centre operator, has continued to defy the recession with a 9 per cent net earnings improvement to A\$68.6m (US\$46.5m) for the six months ended June, writes Bruce Jacques in Sydney.

Property income was up by

33 per cent to A\$77.3m in the period. The company plans to pay an interim dividend of 9.38 cents, against 9.38 cents a share.

Mr Steven Lowy, executive director, said results from the shopping centres had been satisfactory given the current economic environment.

## Placer Pacific soars despite gold output fall

PLACER Pacific, the Australian gold mine, reports a 30 per cent increase in net earnings to A\$50.4m (US\$34.1m) for the six months ended June despite a substantial fall in gold production, writes Bruce Jacques in Sydney.

The higher earnings stemmed entirely from positive tax adjustments. Before tax, profit fell by 45 per cent to A\$37.4m on revenue down 21 per cent to A\$236.3m. The dividend is going up from 3.5 cents a share to 4 cents.

■ Jennings Group, the Austr-

lian housebuilder, has agreed a restructuring plan involving Fletcher Challenge, its major shareholder, and a consortium of banks, writes Bruce Jacques.

The banks will convert A\$90m of debt into a 39 per cent equity stake in Jennings, while Fletcher will release or convert debt of A\$150m and dilute its equity holding in the company from 47 to 43 per cent. Other shareholders will have their equity diluted from 52 per cent to 18 per cent.

■ World International, the Hong Kong property and retail group, reports profits of HK\$1.468.3m (US\$189.3m) for the year ended March, up 50.4 per cent on 1991-1992, writes Simon Holberton in Hong Kong.

The 1991-1992 figures included only a nine-month contribution from the Wharf acquisition. The dividend is being increased to 38.5 HK cents a share, up 16.3 per cent. World said the 1992-1993 results

underlined a year of "considerable progress".

■ Tata Iron and Steel, India's second-largest private sector company, will have a difficult year ahead with profit margins under pressure, writes R.C. Murthy in Bombay.

Mr Ratan Tata, chairman, said sales in the April-June quarter were up by 10 per cent but profits failed to keep pace with sales growth. Net profits for the year ended March fell 70 per cent to Rs1.27bn (\$40m) and the dividend is being cut from Rs3.50 to Rs2.50.

This announcement is neither an offer to exchange nor a solicitation of an offer to exchange any securities. The Exchange Offer described below is made solely by the Offering Circular and Consent Solicitation dated July 8, 1993 and the related Letter of Transmittal and is being made to all holders of GLENFED Debentures. The Exchange Offer will not be made to (nor will tenders be accepted from, or on behalf of) the holders of GLENFED Debentures residing in any jurisdiction where the Exchange Offer would not be in compliance with applicable law. In any jurisdiction where the securities, blue sky or other laws require the Exchange Offer to be made by a licensed broker or dealer, the Exchange Offer will be deemed to be made on behalf of Glendale Federal by The First Boston Corporation or one or more registered brokers or dealers licensed under the laws of such jurisdiction. This notice is to holders of the GLENFED Debentures only and is not calculated to lead directly or indirectly to any other person acting on its contents.

### NOTICE OF EXCHANGE OFFER AND PROPOSED MERGER, RECLASSIFICATION, RIGHTS OFFERING AND ADDITIONAL PREFERRED STOCK OFFERING

#### TO THE HOLDERS OF GLENFED, Inc.

#### 7.75% Convertible Subordinated Debentures Due 2001

Notice pursuant to Section 1206 of the Indenture dated as of March 15, 1986, between GLENFED, Inc. ("GLENFED") and Chemical Bank, as successor by merger to Manufacturers Hanover Trust Company (the "Indenture"), under which the 7.75% Convertible Subordinated Debentures Due 2001 (the "GLENFED Debentures") of GLENFED were issued, is hereby given of the following:

- GLENFED and Glendale Federal Bank, Federal Savings Bank, the principal subsidiary of GLENFED ("Glendale Federal") or the "Bank", are undertaking a comprehensive financial plan of Reorganization (the "Reorganization Plan") to address the current regulatory capital deficiencies of the Bank.
- In connection with the Reorganization Plan, Glendale Federal is offering (the "Exchange Offer"), upon the terms and subject to the conditions set forth in the Bank's Offering Circular and Consent Solicitation dated July 8, 1993 (the "Offering Circular"), and in the related Letter of Transmittal, Consent and Waiver, for each \$1,000 principal amount of GLENFED Debentures (i) to issue 49 shares of common stock, per value \$1.00 per share, of the Bank (the "Bank Common Stock") and 16.68 transferable rights (the "Rights") to purchase additional shares of Bank Common Stock at an exercise price currently anticipated to be \$10.00 per share and (ii) to pay in cash interest that became due and payable on the GLENFED Debentures as of March 15, 1993. As part of the Exchange Offer, the Bank is requiring tendering holders of the GLENFED Debentures ("Debentureholders") to consent to certain proposed amendments to the Indenture (the "Debtenture Amendments") and to give certain waivers, all as more fully set forth in the Offering Circular.
- The principal transactions provided for in the Reorganization Plan are collectively referred to in the Offering Circular as the "Recapitalization" and are (i) the Exchange Offer, (ii) the merger (the "Merger") of GLENFED with and into Glendale Federal, a wholly owned subsidiary of the Bank ("Bank Sub"), (iii) the reclassification (the "Recapitalization") of the outstanding Bank Preferred Stock into a new series of Bank Preferred Stock, (iv) an offering of up to \$300 million of Bank Common Stock (the "Rights Offering") to be made pursuant to the Rights issued to the holders of the common stock, \$1.00 par value per share, of GLENFED ("GLENFED Common Stock") of record at the effective time of the Merger, the Debentureholders who tender into the Exchange Offer and the holders of outstanding Bank Preferred Stock that is reclassified pursuant to the Recapitalization and to the transferees of the Rights issued to each of the foregoing and certain institutional and other investors and (v) an additional offering of \$125 million of equity securities of the Bank, which are expected to consist of an additional new series of Bank Preferred Stock (the "Additional Offering"). The offering of shares of Bank Common Stock pursuant to the Merger and the Rights Offering, and the offering of Bank Preferred Stock pursuant to the Recapitalization and the Additional Offering, will be made only by means of offering circulars filed with the United States Office of Thrift Supervision (the "OTS").
- As a result of the Merger: (i) Bank Sub will succeed to the business, assets and liabilities of GLENFED, (ii) each outstanding share of GLENFED Common Stock will automatically be converted into 0.04 shares of Bank Common Stock and 0.22 Rights, and (iii) the GLENFED Debentures that are not tendered in the Exchange Offer, as modified by the Debtenture Amendments, will remain outstanding as obligations of Bank Sub only and not of the Bank.
- THE BANK IS SUBJECT TO A DIRECTIVE FROM THE OTS THAT REQUIRES, AMONG OTHER THINGS, THAT THE EXCHANGE OFFER AND THE OTHER TRANSACTIONS THAT COMPRISE THE RECAPITALIZATION BE COMPLETED BY NO LATER THAN AUGUST 31, 1993. IF THE EXCHANGE OFFER AND THE OTHER TRANSACTIONS COMPRISING THE RECAPITALIZATION ARE NOT COMPLETED AND THE BANK IS UNABLE TO COMPLY WITH THE REGULATORY CAPITAL REQUIREMENTS IMPOSED BY THE OTS, THE BANK MAY BECOME SUBJECT TO THE APPOINTMENT OF A CONSERVATOR OR RECEIVER, WHICH COULD SEVERELY IMPAIR, OR RENDER WORTHLESS, THE VALUE OF THE GLENFED DEBENTURES.
- THE EXCHANGE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS: (i) AT LEAST 90% IN AGGREGATE PRINCIPAL AMOUNT OF THE OUTSTANDING GLENFED DEBENTURES BEING VALIDLY TENDERED PURSUANT TO THE EXCHANGE OFFER AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE STATED BELOW; (ii) approval of the Reorganization Plan (including the Merger) by the stockholders of GLENFED; (iii) consummation of the Merger and satisfaction of the conditions to each of the other transactions comprising the Recapitalization; and (iv) approval of the material terms of the Recapitalization by the OTS, which is the primary United States regulator of the Bank.
- THE EXCHANGE OFFER WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON AUGUST 4, 1993, UNLESS EXTENDED.
- It is expected that the Merger will become effective between August 4, 1993 and August 31, 1993.
- If the Exchange Offer is consummated, the GLENFED Debentures are expected to be delisted from the Luxembourg Stock Exchange.
- Holders of GLENFED Debentures are strongly encouraged to obtain copies of the Offering Circular to understand the terms of the Exchange Offer and the implications of tendering or not tendering into the Exchange Offer. Copies of the Offering Circular are available for review from the Dealer Manager, the Information Agent, CEDEL S.A. and Euroclear System, at the addresses listed below.

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## Georgia-Pacific Corporation

has sold the assets of

## Butler Paper Company

to

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The undersigned acted as financial advisor to Georgia-Pacific Corporation in this transaction.

## Dillon, Read & Co. Inc.

July, 1993

### FAR EASTERN TEXTILE LTD.

US\$50,000,000 4 per cent. Bonds due 2006

Pursuant to Section 6.2 of the Indenture dated as of October 7, 1991 (the "Indenture"), among Far Eastern Textile Ltd. (the "Company"), Citibank, N.A., London Branch as Principal Paying Agent and Citicorp Trustee Company Limited as Trustee, relating to the issuance by the Company of US\$50,000,000 aggregate principal amount of 4 per cent. Bonds due 2006 (the "Bonds"), we hereby notify you that the newly-adjusted Conversion Price of NT\$39.89 per share will take effect on July 27, 1993, the ex-dividend date. This adjustment is based on the declaration of 66,320,572 shares in the form of the stock dividends of 1992. These stock dividends are funded by the appropriation of the unappropriated earnings in 1992 in the amount of NT\$397,823,430 and the company's capital surplus in the amount of NT\$268,282,290.

July 27, 1993  
By: Citibank N.A. Principal Paying and Conversion Agent **CITIBANK**

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Guaranteed Floating Rate Notes due 1995Guaranteed by  
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In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from July 27, 1993 to January 27, 1994 the Notes will carry an Interest Rate of 4.0125% per annum.

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## INTERNATIONAL CAPITAL MARKETS

## Stronger pound dispels concerns about gilt prices

By Peter John in London and Patrick Harverson in New York

A SHARP rise in sterling against the D-Mark helped lift UK government bond prices yesterday, temporarily dispelling concerns that gilts might have peaked.

Gilts were stronger along the yield curve, although they held gains better at the long-dated end.

## GOVERNMENT BONDS

end. Ten-year gilt futures for September opened at 108.45 and rose more than half a point before easing to close at a net 3.1 higher on the day.

Sterling's gains, prompted by the view that the UK is a safe haven from the turmoil within the European exchange rate mechanism, disguised some of the doubt creeping into the market ahead of tomorrow's £325bn gilt auction.

Continued support for the market at all levels was matched by sellers, particularly later in the day when prices retreated in the face of profit-taking.

Although the buyers remain, there are fundamental political worries ahead of the Christchurch parliamentary by-election.

Dealers were watching the level of sterling against the D-Mark with interest, saying that if the pound was perceived to be overvalued investors would sell it back and that weakness could not come at a worse time for the gilt auction.

Much depends on the outcome of the CBI industrial trends survey due today. If that shows any inflationary trends, that could hit the market.

REGIONAL cost-of-living figures in Germany pointed to a year-on-year rise in inflation from 4.1 per cent to 4.3 per cent.

However, the markets decided that the Bundesbank would have to cut interest rates to save the ERM, and bond prices were firm yesterday, although the bond futures for September eased to close 9 pence higher at 96.27.

Nevertheless, there was a general shift from last week's view that the Bundesbank would be unable to ease to a consensus that it would have to reduce the upper level Lombard rate and the discount rate, which sets the floor for German lending, if the ERM is to survive.

FRENCH bond futures

## FT FIXED INTEREST INDICES

	July 26	July 23	July 22	July 21	July 20	Year Ago	High	Low
Bond Index	98.16	97.98	97.97	98.03	98.32	98.17	98.48	97.28
Fixed Interest	117.20	117.02	117.11	117.10	117.13	105.84	117.20	105.67

Basis 100 Government Securities 15/10000 Road Interest 100%  
\* For 1993 Government Securities high annual compilation: 117.20 (20/7/93), low 105.84 (21/7/93)  
Fixed Interest high annual compilation: 117.20 (20/7/93), low 105.67 (21/7/93)

## GILT EDGED ACTIVITY

	July 23	July 22	July 21	July 20	July 19
Gilt Edged	98.1	100.0	100.0	98.2	100.0
5-day average	98.1	101.3	100.0	100.8	111.8

\* SE activity indices released 1974

opened at 120.36 and shot up to 120.60 as investors decided that whichever way Germany falls at its Bundesbank council meeting on Thursday, France will have to slash rates to rescue its faltering economy.

However, the contract slipped back and closed marginally lower on the day, as did five and 10-year cash bonds after the early enthusiasm gave dealers a chance to take profits.

OAT September futures ended at 120.24.

AMONG the high yielding countries, Italian government bonds tested their historic high as the lira rebounded against the D-Mark. Italian September bond futures hit a high of 104.82 and closed 0.31 up on the day at 104.43.

Spanish debt prices were easier ahead of an auction of

## BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week Ago	Month Ago
AUSTRALIA	5.000	06/03	116.8214	-0.014	7.13	7.06	7.58
BELGIUM	5.000	03/03	112.9800	-0.370	7.15	7.02	7.87
CANADA	7.500	12/03	101.0970	-0.054	7.34	7.09	7.83
DENMARK	6.000	05/03	105.7000	-0.290	7.16	7.18	6.88
FRANCE	5.000	05/08	105.9858	-0.142	6.25	6.09	6.09
GERMANY	5.000	04/03	111.8000	-0.220	6.70	6.70	6.70
NETHERLANDS	6.750	04/03	101.8900	-0.115	6.50	6.51	6.63
SPAIN	11.500	03/03	104.2650	-0.640	11.08	10.98	11.48
JAPAN	4.000	05/09	104.0895	-0.038	3.25	4.01	4.22
UK	5.000	05/09	105.1000	-0.170	7.46	7.46	7.85
UK GILTS	5.000	05/09	110.01	-0.932	7.86	7.86	8.00
US TREASURY	6.250	03/03	105.10	-0.932	5.83	5.89	5.79
ECU (French Govt)	8.000	04/03	104.9200	-0.080	7.27	7.15	7.07

London clearing, "reference New York morning session"  
\* Cross annual yield (including withholding tax at 12.5 per cent payable by non-residents)  
Prices in UK, US, 100, others in decimal

Much of the activity during the morning session was dealers preparing their positions for that new supply.

There was little else to affect business.

The day's only economic news - a 1.9 per cent rise in June existing home sales - was bearish for bonds, but the extent of the gain was insufficient to trouble prices.

SALOMON Brothers bid to buy an undisclosed amount of

## Canada's junk provides some rich pickings

By Bernard Simon in Toronto

THE CRIPPLED and convalescing companies which litter Canada's business landscape have offered rich pickings to investors willing to pay less heed to credit-rating agencies than to their own instincts.

In a local adaptation of the US junk-bond market, a large number of US and, more recently, Canadian investors have put their money into corporate securities well below the grade normally favoured by pension funds and other institutions.

The returns have in many cases been spectacular. Bonds issued by Stelco, Canada's second-biggest steelmaker, traded as low as 30 cents to the \$1 late last year when it looked as if the company might go to the wall. They are now changing hands at close to par.

Participants agree that the best is probably over for the "distressed" sector of the market, comprising companies which have filed for bankruptcy protection. They include bonds issued by buildings owned by Olympia & York, the crippled property developer, and Royal Trust, the financial institution in the process of being rescued by Royal Bank of Canada.

But opportunities still appear to be lurking among another troubled group of companies, described by one trader as "below investment-grade". The companies seem likely to survive the tough times of the early 1990s, but their finances have been strained to the point that credit-rating agencies have cut their ratings below investment-grade level.

One money manager cites the example of 10-year bonds issued by MacMillan Bloedel, the Vancouver-based forestry group. Rated BBB-high by Dominion Bond Rating Service of Toronto, the spread between the Macmillan bonds and the equivalent government of Canada bonds has already shrunk from 3 percentage points to about 1.5 points.

Another portfolio manager

points to a series of 10-year first mortgage bonds secured by leasehold improvements at three Westin hotels in Canada. The bonds were issued at a spread of 1.25 percentage points in 1988. The spread is now 6 percentage points.

Other companies in troubled sectors whose bonds have become popular include Four Seasons Hotels, Domtar and Canadian Pacific Forest Products (both pulp and paper companies), and Scott's Hospitality (restaurants).

The Canadian high-yield market was spurred by US "vulture funds" looking for fresh opportunities, and the reluctance of conservative Canadian institutions to become involved with securities of dubious credit quality.

"The Canadians didn't understand value in liquidation," says one market maker. "The Americans are accustomed to that sort of thing."

One sign of US interest is that Goldman Sachs, the New York-based investment bank, has brought a credit analyst to its Toronto office to seek investment opportunities among corporate Canada's walking wounded.

Some Canadian portfolio managers, such as Lincolndin Management of Oakville, Ontario, have joined the bandwagon. Local securities dealers, including Richardson Greenshields and RBC Dominion Securities of Toronto, have also become more active in trading distressed and below-investment-grade securities.

Several investment managers say that the market is in "below investment-grade" securities springs largely from the poor judgment of Canadian rating agencies. Confidence in local ratings groups was especially undermined by their late recognition of the severity of the problems at property developer, Olympia & York.

In this respect it is perhaps significant that Standard & Poor's has recently opened an office in Toronto, and that Moody's is in the process of following suit.

## Relative safety of sterling market encourages issues

By Tracy Corrigan

AS pressure in the exchange rate mechanism continued to unsettle other European markets, the sterling bond market provided a focus for activity.

Two straight bonds and two equity-linked financings launched yesterday benefited from the perception of Euro-

## INTERNATIONAL BONDS

pean investors that the sterling market is one of the safest choices available.

Anglian Water launched a £85m issue of bonds with equity warrants, only the second sterling warrants deal this year. Anglian has a relatively high dividend yield so it was more economical for the company to issue bonds with warrants than to launch a convertible bond offering since

convertibles are priced according to dividend yields and warrants are priced according to the share's volatility, according to lead manager J Henry Schroder Wagg.

About half the proceeds of the issue will be used to refinance the acquisition of the Nordic Water group of companies in February 1993, initially financed from surplus core funds, the other half for general corporate purposes.

The five-year 6 1/2 per cent bonds, issued at 111.5, were bid at 111 at the end of trading.

Coats Viyella, the UK's largest textiles group, launched a £75m offering of convertible bonds due 2003, which will be used for general corporate purposes including the repayment of short-term borrowings.

The deal was priced at the tighter end of indicated levels, with a conversion premium of 19 per cent and a coupon of 6 1/2 per cent. However, the deal

met strong demand from continental Europe, according to lead manager Merrill Lynch, and was bid at a 1/2 point premium to its par issue price.

On the fixed-rate side, both Sweden and Hewlett-Packard, the US computer company, launched five-year offerings, taking advantage of the swap opportunities available for bonds maturing at the end of 1998, due to the shape of the yield curve.

Sweden has been able to set progressively more aggressive funding targets this year as worries about its weak economy and heavy funding requirements have subsided. Yesterday's £250m five-year issue allowed the AAB/AA+ rated sovereign borrower to achieve sub-Libor funding.

The deal was launched at a spread of 36 basis points over the 7 1/2 per cent gilt due 1998. By the end of the day, the spread was 38 basis points over

## NEW INTERNATIONAL BOND ISSUES

	Amount	Coupon	Price	Maturity	Yield	Spread	Book	Notes
STERLING								
Kingdom of Sweden	250	7	98.25	Dec 1998	0.28%	+35	7/14-9/14	US/UK/SG Waterbury Bros.
Hewlett-Packard Finance Co.	250	7	99.91	Dec 1998	0.27%	+30	7/14-9/14	Goldman Sachs Inc.
Coats Viyella Ltd	75.625	6.5	100	Aug 2003	2.5	-	-	Wentworth Ltd
Anglian Water Ltd	85	6.5	111.5	Aug 1998	2.25	-	-	J Henry Schroder Wagg
YEN								
Tatsumi Corp.	200	4.05	96.88	Nov 1997	0.3%	-	-	Yamashita Int'l (Europe)
Osaka Electric Railway Co.	200	4.05	96.88	Nov 1997	0.3%	-	-	Yamashita Int'l (Europe)
Tatsumi Corp.	100	4.05	96.88	Nov 1997	0.3%	-	-	Yamashita Int'l (Europe)

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. \*Convertible, 50% call option, 50% non-callable. R: fixed rate offer price; fees are shown at the offer level. \* Conversion price: 12.78. Callable at par from 31/8/98. \* Denom: £2000 + 1127 warrants. Expiry date: 2/8/98. Callable on 1/10/94 at 105% falling 1/4% annually.

the curve, on the bid side.

Hewlett-Packard Finance launched a \$100m five-year offering, priced to yield 30 basis points over the same reference gilt. Some dealers said the pricing was on the aggressive side, but lead manager Goldman Sachs pointed out the borrower's strong rating (AA+ by Moody's and AA+ by Standard & Poor's) and the paper's rarity value, adding that the

deal had met strong retail demand overseas. The issue was swapped into floating rate US dollars.

Elsewhere, dealers reported renewed talk of a \$150m bond for Morocco and a smaller issue for Philippine Airlines.

The Bank of England plans to liberalise the rules governing the issuance of sterling commercial paper and medium-term notes.

On Friday, the Bank issued a consultative document detailing proposed revisions to existing regulations, and asked market participants for their comments on the proposals by September 15. The proposed changes involve the removal of the minimum maturity of seven days for commercial paper and the maximum maturity of five years for medium-term notes.

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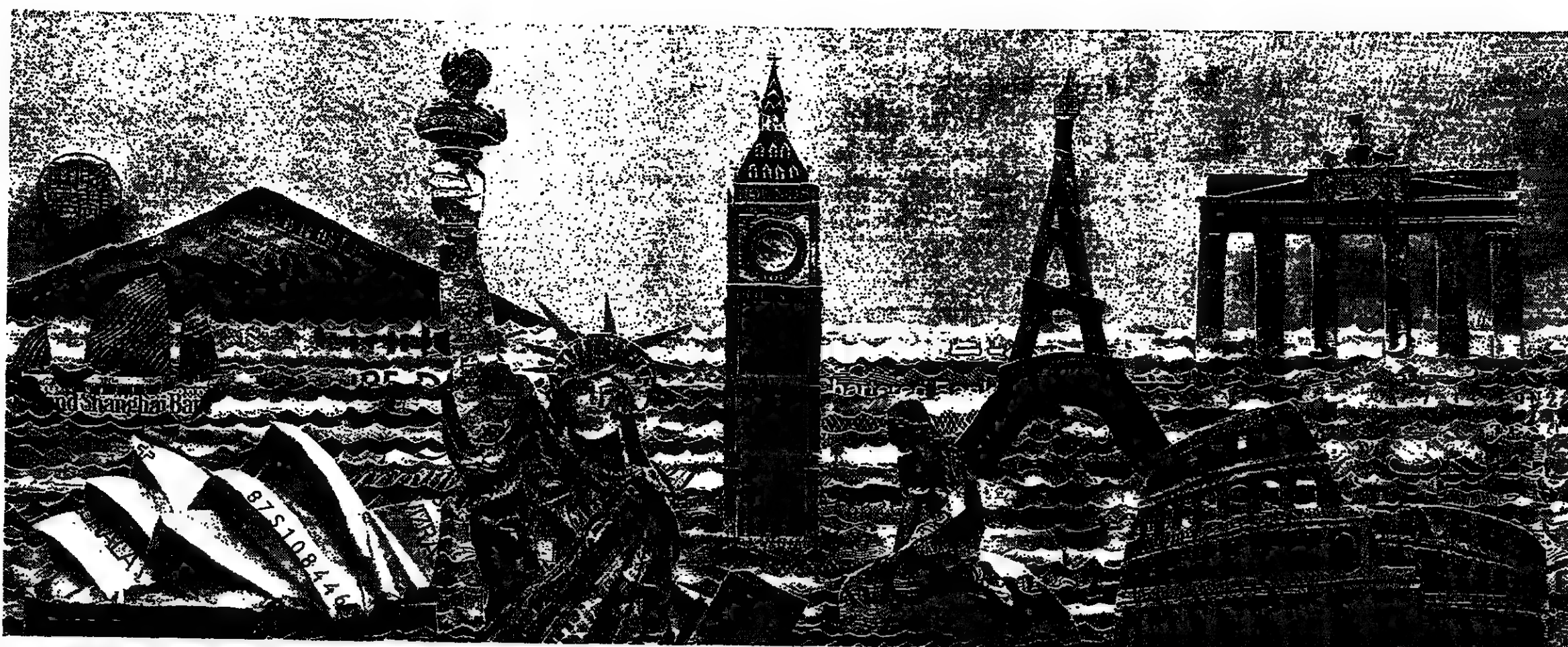
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## FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

	Issued	Red	Yield	Chg	Yield	Chg	Yield	Chg
US DOLLAR STRAIGHTS								
Alcoa 5 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 6 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 7 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 8 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 9 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 10 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 11 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 12 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 13 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 14 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 15 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 16 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 17 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 18 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 19 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 20 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 21 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 22 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 23 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 24 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 25 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 26 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 27 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 28 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 29 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 30 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 31 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 32 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 33 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 34 1/2	100	104	105	+0.24	100	104	105	+0.24
Alcoa 35 1/2	100	104	105	+0.24	100	104	105	+0.24





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## COMPANY NEWS: UK

# Disposal helps Union Discount return to black with £11.3m

By Tracy Corrigan

UNION DISCOUNT, one of the City's leading discount houses, returned to profit in the first half of 1993, largely due to its sale of Winterford Securities, the small companies market-making specialist.

The group announced pre-tax profits of £11.3m for the six months ending June 30 1993, after reporting pre-tax losses of £14.8m last time.

Discontinued operations produced an operating profit of £3.7m, while disposals accounted for a further £6.5m. Operating profits on continuing operations amounted to just £1.1m, a substantial improvement on the £12.1m loss in the comparable period last year.

However, there is no interim dividend. Mr George Blunden, chief executive, said the board wanted to see greater consistency in the company's performance before restoring dividend payments, and would concentrate on developing fee

earning businesses.

But he added: "It's my target that we should restore dividend payments by the end of the year," assuming the company's improved performance is maintained.

Mr Blunden said that the first priority in restoring profitability was to extricate the discount house from its disastrous foray into leasing, undertaken in the 1980s.

He hopes that no further provisions will be needed and that the remaining leasing businesses will be sold off or run down by the end of the year.

Union Discount shares have been trading at a substantial discount to their net asset value, because of concern about its leasing businesses.

The news that Sabre Leasing, the largest leasing business, continued to make a small profit even though the asset financing group lost £1m, "has to be encouraging," according to Mr Martin Green, an analyst at Smith New Court, "but the market is still

sceptical about any company involved in leasing."

The share price rallied 7p to 158p yesterday, still well below net asset value of 220p. The results were in line with analysts' expectations.

Looking ahead, Mr Blunden said that the discount house would concentrate on developing existing businesses, including the traditional discount house business, jobbing, asset management and futures broking.

The capital released by winding down the leasing side will be used to develop the group's capital markets operations in areas such as derivatives and arbitrage trading.

Since the end of the first half, the group has acquired a majority stake in Guildhall, a consultancy which advises financial institutions on risk management.

Earnings per share, stripping out disposals and discontinued operations, worked through at 3.78p, against losses of 87.8p. See Lex

## Syndicate bank backs bid for Wm Hill

By Maggie Urry

ONE OF the syndicate of banks which has lent £350m to William Hill is backing the £380m consortium bid for the betting shop chain, part of Brent Walker.

A majority of the banks, including some which have also lent to Brent Walker himself, are anxious that the bid, being put together by SG Warburg, should be pursued, along with other proposals for William Hill.

For the first time Brent Walker admitted officially yesterday that it had received an approach for William Hill.

The offer is from a group of investors advised by SG Warburg. It would be structured about half-and-half in equity and new loans, with the equity coming from a number of venture capital investors.

Brent Walker said it was seeking further information from the Warburg group. A meeting was held between both sides last Friday when Warburg is understood to have requested the chance to perform due diligence and talk to William Hill's management.

William Hill is ring-fenced from the rest of Brent Walker and its debt is due to be repaid or refinanced by March 1 next year. Brent Walker said it was looking at a number of alternative proposals. These include possible bids from other parties, the flotation of William Hill or even the refinancing of the loan in March.

William Hill is one of the pillars on which the Brent Walker business plan, which was agreed with bankers last year when they completed a £1.65bn refinancing, is built. Without William Hill, Brent Walker could find it difficult to service its other debts.

# Hartstone cuts purchase costs

By Peggy Hoffinger

FURTHER questions surfaced yesterday over acquisitions made by Hartstone, the leather goods and hosiery company which recently negotiated a standstill agreement with bankers following the breach of several covenants.

Its annual accounts, published yesterday, showed that following further investigation it would pay £4m less than planned for the lingerie arm of Amzar, the hosiery company acquired in 1992.

Hartstone became one of Europe's leading hosiery and leather goods companies through a rapid succession of acquisitions. In January it said it would pay £10.4m in cash and shares for Amzar Industrial. However, the group said that the purchase price would now be £6.2m.

The company said that the balance of £4.1m, including an initial payment of £3.7m, would be now be offset against the amount owed on Amzar, the hosiery company and the lingerie group's original parent.

Mr Shaun Dowling, the

chairman who replaced Hartstone's founder Mr Stephen Barker, said the alteration was an accounting technicality.

The group earlier this month announced losses of £9.86m and £31m in above the line charges. The results followed profits warnings and the collapse of the share price from 27p in February to a low of 33p. The shares have since recovered, closing at 60p last night, up 4p.

Analysis said yesterday that although the accounts were more detailed than normal there remained several ques-

tions, particularly as to how Hartstone would deal with difficulties arising from its high gearing of 120 per cent.

"After the standstill they have got a chance to trade their way out of some difficulties but not enough to bring the debt down," said one.

Observers speculated that the group would be forced to sell a business and perhaps call on shareholders for cash. BDO Binder Hamlyn reinforced the view in its auditors report, warning of the possibility of disposals "at less than current net book amounts".

## Reorganisation charges reduce CRT to £3.3m but dividend lifted by 17%

By Catherine Milton

CRT GROUP, the training, recruitment and consultancy company, proposes to lift the total dividend by 17 per cent despite a fall in pre-tax profits from £5.16m to £3.3m in the year to April 30, hit by one-off reorganisation costs and the recession.

Mr John Gittins, finance director, said the company used the £3.3m (£3.7m) cash generation as a guide to setting the dividend level, rather than headline profits.

The pre-tax profits were struck after charges of £1.5m (£0.8m) to cover discontinued and exceptional items.

The exceptional charge has increased from the £530,000 reported at the interim stage, reflecting the adoption of the new FRS 3 accounting standard which meant reclassifying some extraordinary items, together with other accounting changes and the establishment of provisions against future

costs associated with discontinued activities.

Total turnover, including £1.28m (£4.35m) from discontinued operations, increased to £47m (£43.5m) and operating profits declined to £4.73m (£4.07m) including a £147,000 (£481,000) loss on discontinued operations.

The company's core training division increased sales to £22.9m (£20.2m), contributing operating profits of £4.5m (£3.3m).

Mr Karl Chapman, chief executive said: "The disappointing financial performance in this division was largely a consequence of substantial investment in the provision of training materials and improved quality control processes."

The company added Wetherby Training Services and Convergent Communications to the division. The acquisitions contributed £1.68m to turnover and £248,000 to operating profits.

The consultancy division contributed turnover of £5.5m (£5.5m) and operating profits of £430,000 (£570,000), following "a poor start to the year".

The recruitment division contributed an improved £16.4m (£13.4m) to sales and operating profit of £800,000 (£400,000).

The board proposes a final dividend of 2.15p (1.82p) to give a total for the year of 2.5p (2.4p). The dividend is payable from earnings per share of 4.3p (3.3p).

### DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Capita	0.95	Oct 7	0.7	1.65	2.1
Cook (DC)	0.8	Oct 7	0.3	1.1	0.5
CRT	2.15	Dec 15	1.82	3.97	2.4
Grange	0.6	Oct 8	0.5	1.1	1.0
Independent tv	0.8	Sept 6	0.5	1.3	0.5
Merridown	0.8	Oct 4	0.5	1.3	0.5
Motor World	2.3	Aug 27	0.2	2.5	2.2
TR Smaller Cos	2.3	Sept 28	2.2	4.5	3.7

Dividends shown pence per share net except where otherwise stated. \*Equivalent after allowing for scrip issue. †On increased capital. \$USM stock.

## Motor side boosts DC Cook

A SUBSTANTIAL upturn in second half results of the motor division enabled DC Cook, the Rotherham-based motor retail and property group, to report pre-tax profits of £550,000 for the year to April 30, against £121,000.

At the interim stage the USM-quoted company recorded a loss of £56,000. The pre-tax result was achieved after exceptional charges of £281,000 (£70,000) and lower interest costs of £1.48m (£2.09m).

Turnover was £108m (£107.6m), including £1.38m (£14.1m) from discontinued activities. Fully diluted earnings were 2.00p (1.11p). After passing the interim dividend a final of 0.6p is recommended, against last year's total of 0.5p.

# CURRENCY RATES

## POUND SPOT - FORWARD AGAINST THE POUND

### DOLLAR SPOT - FORWARD

### AGAINST THE DOLLAR

### EURO CURRENCY INTEREST RATES

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## Global Teleworks Corporation



Pierre Salinger

Mr. Neville Abreo, President and Chief Executive Officer of Global Teleworks Corporation, is pleased to announce the appointment of Mr. Pierre Salinger as a director of the company.

Mr. Salinger joins Global from his former position as Chief Foreign Correspondent for ABC News in London, England. He has held numerous political and business positions, including: Press Secretary for the White House during the Kennedy and Johnson Administrations; Vice President of the National General Corporation; and Vice President of Continental Airlines.

Mr. Salinger will assist Global in identifying and establishing strategic alliances with telecommunications partners in Europe and the Middle East.

Global Teleworks Corporation is an enhanced telecommunications service provider. The company's GLOBAL NUMBER service is the first fully integrated system to incorporate all telecommunications services into a single telephone number. Global also provides service bureau Enhanced 800 Services, AudioFax, FAX-on-Demand, and Virtual Network capabilities.

Global trades on the Vancouver Stock Exchange under the symbol GLTV.

**Bank of Montreal**  
US\$250,000,000  
Floating rate debentures, series 10, due 1998  
(Subordinated to deposits and other liabilities)  
Interest rate for the period 27 July 1993 to 27 January 1994 has been fixed at 3.6125% per annum. The amount payable on 27 January 1994 will be US\$194.64 against coupon No. 15.  
225,000 Floor  
Certificates due 1998  
The differential interest rate for the above payment period has been fixed at 2.4375% per annum. Interest payable on 27 January 1994 per US\$1,000 note will amount to US\$12.46.  
Agent: Morgan Guaranty Trust Company  
JPMorgan

All of these securities having been sold, this announcement appears as a matter of record only.

July 1993

2,130,000 Shares



Celestial Seasonings, Inc.

Common Stock

380,000 Shares

PaineWebber International

Lehman Brothers International

This tranche was offered outside the United States and Canada.

1,750,000 Shares

PaineWebber Incorporated

Lehman Brothers

Allen &amp; Company

The First Boston Corporation

Bear, Stearns &amp; Co. Inc.

Alex. Brown &amp; Sons

BT Securities Corporation

Dillon, Read &amp; Co. Inc.

Donaldson, Lufkin &amp; Jenrette

A.G. Edwards &amp; Sons, Inc.

Hambrecht &amp; Quist

Kidder, Peabody &amp; Co.

Merrill Lynch &amp; Co.

Montgomery Securities

Morgan Stanley &amp; Co.

Oppenheimer &amp; Co., Inc.

Prudential Securities Incorporated

Smith Barney, Harris Upham &amp; Co.

Dean Witter Reynolds Inc.

George K. Baum &amp; Company

William Blair &amp; Company

Dain Bosworth

Furman Selz

Hanifen, Imhoff Inc.

Kemper Securities, Inc.

Kirkpatrick, Pettis, Smith, Polian Inc.

Ladenburg, Thalmann &amp; Co. Inc.

C.J. Lawrence Inc.

Piper Jaffray Inc.

The Principal/Eppler, Guerin &amp; Turner, Inc.

The Robinson-Humphrey Company, Inc.

Tucker Anthony

Wessels, Arnold &amp; Henderson

Wheat First Butcher &amp; Singer

This tranche was offered in the United States and Canada.



## Merrydown declines by 11% as competition bites

By Philip Rawstone

STIFFER competition in the premium cider market contributed to an 11 per cent decline in full-year pre-tax profits at Merrydown, the Sussex-based cidermaker.

Though total cider volumes more than matched the overall market growth of 12 per cent, profits for the year to March 31 slipped from £1.93m to £1.71m. The shares fell 16p to 268p.

Trading profit was virtually unchanged at £2.33m on turnover ahead 11 per cent at £19.2m.

Merrydown Vintage Cider maintained its brand leadership in the premium take-home market with a 27 per cent share but faced severe pressure on pricing and margins from the launch of rival branded and private label ciders.

"It is very doubtful whether the market can sustain all the new high alcohol cider brands that have been launched," said Mr Richard Purdey, chairman.

Merrydown's volume and prices were also affected by the

impact of recession on independent retailers in south-east England. However, sales of Traditional Cider in cans continued to grow strongly and the group entered the private label business which, Mr Purdey said, was starting to make a "useful contribution" to profits.

Export sales advanced some 19 per cent to £900,000. Recession, particularly in Germany, slowed progress in Europe but new business in South America made a promising start.

Overseas profit contribution, however, remained minimal while high costs of opening new markets are being incurred.

Interest charges rose from £425,000 to £521,000 as the company invested heavily in relaunching its Vintage Cider brand and improving production and bottling facilities.

Rowings at the year end were £5.26m against shareholders' funds of £13.8m.

Earnings per share fell from 15.24p to 13.03p but a final dividend of 6p lifts the total by 12.5

per cent to 7p.

### COMMENT

Merrydown, the pioneer of the premium cider market, is finding it tough defending its ground against the rush of later, and bigger, entrants. But it is difficult to fault its strategy for combating competition. Management has been restructured and strengthened; it has invested heavily in relaunching its leading cider brand and in production and bottling facilities that have enabled it to enter the growing private label business; it has expanded into the pub market for draught cider through an agreement with Gaymer Group and has reduced its dependence on cider by acquiring adult soft drink brands such as Piermont, Shloer and P.L.I. Their contribution should enable Merrydown this year to double pre-tax profits to £3.5m as the growth in cider slows to an estimated 5 per cent. On a prospective p/e of 12.5 it looks reasonably rated below Bulmer and Taitton.

## Greggs rises 26% to £2.9m

By Chris Tighe

GREGGS, the manufacturer and retailer of bread, confectionery and savoury products, lifted pre-tax profits by 26 per cent, from £2.36m to £2.95m, in the 24 weeks to June 12.

Turnover improved to £48.3m (£45.3m); the 6.8 per cent rise included a small increase in volumes through existing outlets.

Mr Mike Darrington, managing director, said the results reflected the company's belief that the recession had ended but he was seeking steady, long term growth rather than a boom. Gross margins had increased slightly and the wage percentage of costs had reduced, reflecting both improved volumes and tighter operational costs. The sandwich business grew strongly but bread sales were relatively disappointing.

Earnings per share were ahead 27 per cent to 17p (13.4p), and the interim dividend goes up to 6p (5p).

Mr Ian Gregg, chairman, said because the second half of last year was much stronger than the first, he did not anticipate comparative profit growth in the second half of 1993. In 1994 it plans record capital investment of £12m, half of it in London and the West Midlands.

Net cash now stands at £5m, almost £4m higher than this time last year.

## Capita manages 15% advance to £2m

By Catherine Milton

CAPITA GROUP, a provider of services to the public sector, reported pre-tax profits up 15 per cent, from £1.77m to £2.04m, in the six months to June 30.

Turnover rose to £22.1m (£13.7m) mainly because the company's outsourcing division secured ten new contracts - three to manage local authority information revenue and benefits administration, and seven in computer services - tripling the number of contracts since the last year end.

Outsourcing contributed turnover of £13.2m (£7.08m)

and pre-tax profits of £1m (£1.06m), giving a sharp fall in margins to 7.6 per cent (15.1 per cent). The shares closed 1p lower at 168p.

Mr Rod Aldridge, chairman and chief executive, said: "The key to the outsourcing business is creating economies of scale. Efficiency comes with growth."

The company said the new contracts had depressed margins because of the high initial costs associated with reorganising public sector structures. Capita also wrote off £300,000 in implementation costs.

Analysts said they would give the company the benefit

of the doubt. One said: "It's all very plausible and this is still absolutely the business to be in. Everything now depends on effective management."

Another worry was the company's decision to move into revenue and benefits administration which some analysts said offered less scope for scale efficiencies.

The advisory and consultancy division contributed £8.99m (£6.65m) to turnover and £1.04m (£703,000) to pre-tax profits, giving margins of 11.6 per cent (10.6 per cent).

Capita has integrated its £450,000 cash acquisition of

Goldcrest - made in April - within the property services arm of its outsourcing operations. The company estimates it contributed £203,000 to turnover and £11,000 to pre-tax profits.

At the half-way stage Capita had cash of £12.3m (£7.52m) and no borrowings. Mr Aldridge said: "A strong balance sheet is the key in our market. People want to be confident that the company they are getting into bed with for the next five years is not going to go bust."

The interim dividend is 0.85p (0.7p), payable from earnings per share of 2.85p (2.53p).

## Harmony Leisure links with the Sangster and Slater families

By Tim Burt

HARMONY Leisure, the loss-making pubs and restaurants group, yesterday announced an unexpected link-up with two of the City's best known families - the Sangsters, former owners of Vernon Pools, and the Slaters, whose Slater Walker merchant bank collapsed in the 1970s.

Mr Jim Slater, the one-time stock market guru and property entrepreneur, has agreed together with shareholders representing the Sangsters to sell Arion, their jointly-owned Edinburgh property company, to Harmony.

As part of an all-paper transaction, the two families will receive 12.3m new Harmony shares at 6p, valuing Arion at £800,000.

Mr Guy Sangster, whose father Robert was chairman of Vernon Pools until its acquisition by Thomson T-Line in 1988, is to become a non-execu-

tive director of Harmony once the transaction has been approved by the Stock Exchange.

Mr Christopher Slater, whose father Jim became a share tipster after his business empire failed, will remain as managing director of Arion.

The move marks Harmony's first sizeable acquisition since the board announced a £1.8m rights issue earlier this year to fund the creation of a property investment division.

Yesterday, Mr John Main, chairman and joint managing director of Harmony, said the Slaters' interest in fledgling property companies had been aroused by Mr George Soros's recent investment in British Land, the commercial property group.

"Harmony is an ideal shell vehicle for them," Mr Main said. "We are very excited about the quality and commitment of the new investors. This acquisition increases our



Jim Slater, former property entrepreneur and market guru

asset base and brings in a good stream of rental income."

The move group will also be seeking other all-paper acquisitions to build up its asset base, he added.

## Closure at Ferry Pickering

Ferry Pickering, the Leicestershire-based printing and packaging group, is to close its loss-making Scottish manufacturing operations at Clydebank.

Costs of the closure, scheduled for the end of next month, are estimated at £2.6m, excluding goodwill of £1.4m previously written off against reserves.

Directors said the decision had been reached following "a lengthy period of continuing losses".

The Scottish business incurred an increased operating deficit of some £365,000 (£192,000) in the six months to June 30.

Group operating profits on continuing activities over the same period were estimated at £643,000 (£445,000).

The interim dividend, expected to be announced on August 31, should be maintained at 2.1p, the directors stated.

## Specialeyes losses cut to £333,000

SPECIALEYES, the USM-quoted retail optician, reported pre-tax losses of £333,000 for the 34 weeks to May 15. That compared with a loss of £696,000 for the 38 weeks to May 30 1992 and a forecast of £350,000 in May's placing of unsecured loan stock.

Turnover was £9.48m (£9.08m). Losses per share were 2.18p (3.51p).

Mr James Power, chairman, said that the £1.5m loan stock issue had been completed providing the resources to continue the rationalisation begun at the start of this year.

### Beckenham

Beckenham Group, the USM-traded heating and ventilating engineer, saw pre-tax losses reduced to £166,000 in the six months to April 30.

The deficit at this restructured group, cut from £771,000 helped by reduced interest charges of £112,000 (£364,000), came on turnover of £17.4m (£15.3m) including a £620,000 contribution from acquisitions. Losses per share worked through at 0.3p (1.3p).

### CRP Leisure

Shares in CRP Leisure, the USM-quoted public house refurbishment company,

resumed trading at 8p following a refinancing backed by stockbrokers RA Coleman (North Wales).

The shares were suspended at 7p on March 26 this year, following financial problems connected with its CR Pursuehouse public house refurbishment subsidiary. This was placed into liquidation on March 30.

CRP made a loss of £117,000 (£195,000) on turnover of £240,000 (£1.54m) for the six months ended April 30 1993. Losses per share were 0.7p (1.2p).

### TR Smaller Cos

After deducting prior charges at par, the net asset value per share of TR Smaller Companies Investment Trust rose 17.5 per cent - from 155.4p to 182.6p - over the 12 months to May 31.

Net revenue showed a 23.5 per cent increase to £7.71m (£6.24m) for earnings per share ahead at 4.31p (3.49p). A recommended final dividend of 2.5p brings the total for the year to 3.8p (3.7p).

### Campbell Armstrong

Campbell & Armstrong, the shop and office fitting group, incurred pre-tax losses of £2.94m for the year to March 81 - in line with last month's warning.

The outcome, prepared under FRS 3, compared with a restated deficit of £222,933 and was struck after bad debts, redundancy costs and losses

from closed businesses totalling £900,000 (£500,000).

The group also took exceptional charges of £1.4m relating to a property write-down and a loss on disposal of businesses.

Turnover was £50.5m (£51.3m). Adjusted losses per share were 14.5p (4.1p).

### Waverley Mining

Waverley Mining Finance, the Edinburgh-based investment company, reported a pre-tax deficit of £63,411 from gross income of £141,493 for the year to mid-March.

That compared with a loss of £195,061 from income of £103,664 last time.

Losses per share came out at 0.6p (1.7p).

### Smaller Cos Inv Trst

Net asset value per share of The Smaller Companies Investment Trust stood at 124.6p at the six months ended June 30, against 94.08p six months earlier and with 86.95p at the interim stage last year.

Earnings were 1.31p (1.52p) per share. As already announced, the interim dividend is maintained at 1.2p.

### Independent Inv

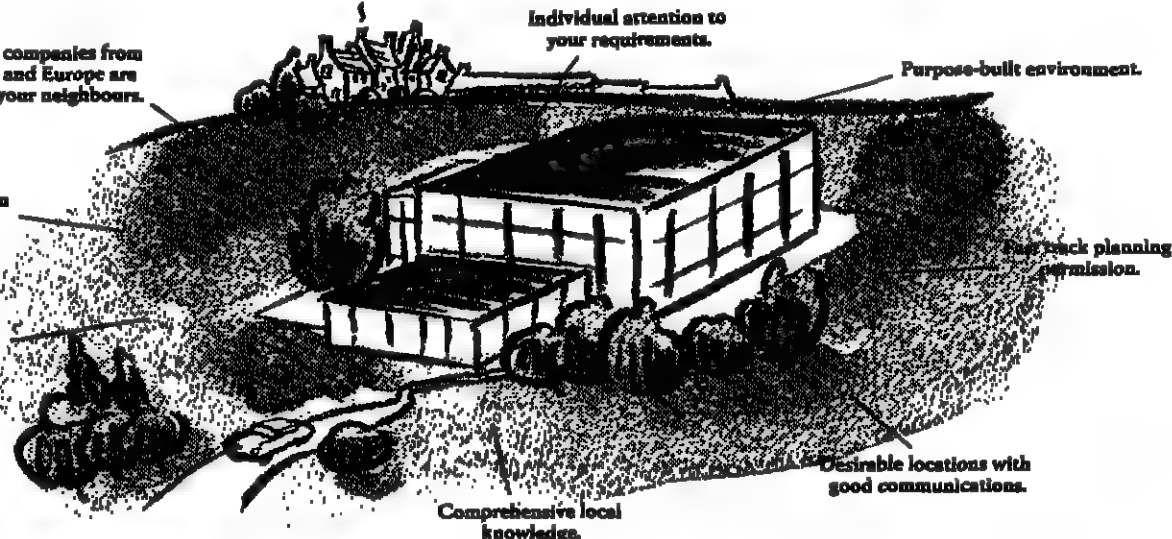
Independent Investment lifted net asset value by 14 per cent to 66.3p per share over the year to June 30.

Available revenue amounted to £916,000 (£587,000) for earnings of 0.89p (0.63p) per share. An interim dividend, to be paid in lieu of a final, is 0.6p (0.5p).

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Philips Medical Systems



PHILIPS

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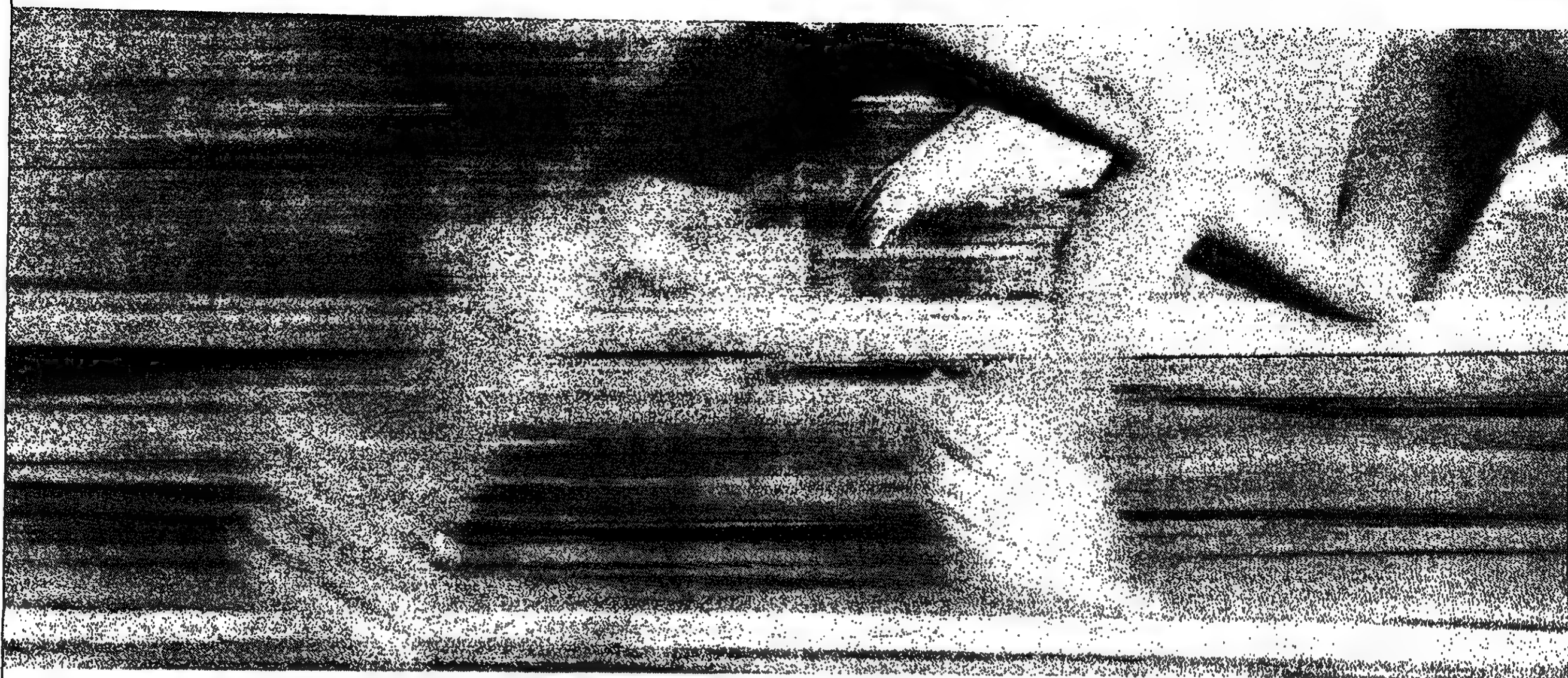
July 1993







# We're always improving our track record



	1990	1991	1992
Sales	19,964	22,964	27,167
Capital Expenditure	10,610	11,827	10,637
Net Profit	1,367	1,413	1,425

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FT-SE Actuaries Share Indices		THE UK SERIES
<b>FT-SE 100</b> 2844.2 +18.5	<b>FT-SE MID 250</b> 2215.2 +12.3	<b>FT-A ALL-SHARE</b> 1409.55 +7.16

	Day's Change	Jan 22	Jan 23	Jan 24	Year ago	Dividend yield %	Earnings yield %	P/E Ratio	Vol adj	Adj beta	
FT-GE 100	2944.2	+0.6	3227.7	3200.1	2614.7	226.0	4.02	6.53	20.49	54.69	1.00
FT-GE Mid 250	3215.2	+0.4	3332.9	3300.5	3165.4	238.8	3.78	6.05	26.88	99.74	1.11
FT-GE Mid 250 ex Int Tru	3227.0	+0.3	3216.1	3214.7	3209.4	210.0	3.87	6.47	18.32	61.30	1.11
FT-GE-A 250	1423.0	+0.5	1415.4	1412.2	1405.4	113.0	3.98	5.96	28.67	27.15	1.00
FT-GE 500	18334.8	+0.1	18351.4	1831.32	1630.91	-	2.48	4.27	38.20	26.26	1.22
FT-GE 500 ex Int Tru	1632.28	+0.1	1631.86	1631.41	1637.07	-	2.59	4.71	36.25	26.26	1.22
FT-GE-A 500	402	+0.1	402.09	401.98	401.98	124.15	-	3.85	28.26	26.10	1.00

Account Dealing Dates		
First Dealings:		
Jul 19	Aug 16	
Option Declarations:		
Jul 29	Aug 12	Aug 2
Last Dealings:		
Jul 30	Aug 13	Sep 2
Account Dep:		
Aug 9	Aug 23	Sep 13

per cent cross-holding in the brewer, forecast that its first-half 1983 earnings would drop by a quarter. LVMH said the fall was due to a downturn in the champagne business. Guinness shares rallied to close 3 down at 444p.

The move by Coats Vivella

the company said that the issue would be used to reduce short-term borrowing.

**Caution over Emap's remarks** last week about the cost of new magazine launches continued to gnaw at the share price with a fall of 9 to 335p.

**MARKET REPORTERS:**  
Joel Kibazo,  
Christopher Price,  
Christine Buckley.

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■ Other statistics, Page 26

Time to Fitnew Vases			
From 151 to 1983	1381	+1	1381
Each 12pc 1989	1291	+0	1291
From 91 to 1989	1141	+0	1141
Each 12pc 1990	1221	+0	1221
From 104 to 1990	1181	+0	1181
Conversion 104 to 1990	1141	+0	1141
Sp 2000	1081	+0	1081
From 130 to 2000	1281	+0	1281
10pc 2001	1141	+0	1141
94 to 2002	1121	+0	1121
Sp 2003	1051	+0	1051

**JOTTER PAD**

ACROSS	DOWN
1 Cut lumber (8)	1 Master taking physical training? (7)
4 Guarantees certain bonds (8)	2 So dieting upsets one's assimilation of food (8)
9 That, but not seriously by that sound of it (5)	3 Love in new capital (6)
10 Bless me! A strange get-together (8)	5 Ill-fitting suit from the Outer Hebrides (4)
12 An event Jews won't forget or ignore (8)	6 Plain-chant? (8)
13 Poisonous catches general unwarers (6)	7 Initially it may be uphill, chain steep (5)
15 Sadie Thompson's downfall (4)	8 Jack may work on this ecclesiastical point (7)
16 Noble inlaid with nacre design for a place of worship (10)	11 Rips are put in order by mending (7)
19 Singer has tension after her work (10)	14 Lead on? (7)
20 First sign of rust in rotten wood (5)	17 With assurance, indeed (9)
23 Untidy arrangement that would horrify Mrs. Grundy (6)	18 Secret coteries broken up (8)
24 Divide and eat pears, perhaps (8)	19 What to do when a player sends badly (4.3)
27 Exaggerate the speed of cricket (8)	21 Get into trouble? (7)
28 A real sport! (6)	22 Money sought by some scouts (6)
29 One of the blessings of city life (8)	24 Live a prosperously (6)
30 Stopped wearing corsets (5)	28 Express a plea for original expression (4)

[illegible]

**Solution 8.21:**

1000

100



## LONDON SHARE SERVICE

## AMERICANS

Notes	Price	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	99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## AUTHORISED UNIT TRUSTS

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (971) 573-4378 for more details.

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## OTHER UK UNIT TRUSTS



● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

**OFFSHORE INSURANCES**

[illegible]



[illegible]

LUXEMBOURG (SHE RECOGNISED)					
	Int. Change	Price	Old Price	Old Par	% of Old Par
<b>Central Fund Luxembourg SA (S)</b> (see Quotes L-1887 Luxembourg) 510 282-06-640					
1st and 2nd Preference	+	2,674	2,590	1,400	111
3rd Preference	+	2,674	2,590	1,400	111
4th Preference	+	2,297	2,297	1,400	111
5th Preference	+	2,297	2,297	1,400	111
6th Preference	+	2,297	2,297	1,400	111
7th Preference	+	2,297	2,297	1,400	111
8th Preference	+	2,297	2,297	1,400	111
9th Preference	+	2,297	2,297	1,400	111
10th Preference	+	2,297	2,297	1,400	111
11th Preference	+	2,297	2,297	1,400	111
12th Preference	+	2,297	2,297	1,400	111
13th Preference	+	2,297	2,297	1,400	111
14th Preference	+	2,297	2,297	1,400	111
15th Preference	+	2,297	2,297	1,400	111
16th Preference	+	2,297	2,297	1,400	111
17th Preference	+	2,297	2,297	1,400	111
18th Preference	+	2,297	2,297	1,400	111
19th Preference	+	2,297	2,297	1,400	111
20th Preference	+	2,297	2,297	1,400	111
21st Preference	+	2,297	2,297	1,400	111
22nd Preference	+	2,297	2,297	1,400	111
23rd Preference	+	2,297	2,297	1,400	111
24th Preference	+	2,297	2,297	1,400	111
25th Preference	+	2,297	2,297	1,400	111
26th Preference	+	2,297	2,297	1,400	111
27th Preference	+	2,297	2,297	1,400	111
28th Preference	+	2,297	2,297	1,400	111
29th Preference	+	2,297	2,297	1,400	111
30th Preference	+	2,297	2,297	1,400	111
31st Preference	+	2,297	2,297	1,400	111
32nd Preference	+	2,297	2,297	1,400	111
33rd Preference	+	2,297	2,297	1,400	111
34th Preference	+	2,297	2,297	1,400	111
35th Preference	+	2,297	2,297	1,400	111
36th Preference	+	2,297	2,297	1,400	111
37th Preference	+	2,297	2,297	1,400	111
38th Preference	+	2,297	2,297	1,400	111
39th Preference	+	2,297	2,297	1,400	111
40th Preference	+	2,297	2,297	1,400	111
41st Preference	+	2,297	2,297	1,400	111
42nd Preference	+	2,297	2,297	1,400	111
43rd Preference	+	2,297	2,297	1,400	111
44th Preference	+	2,297	2,297	1,400	111
45th Preference	+	2,297	2,297	1,400	111
46th Preference	+	2,297	2,297	1,400	111
47th Preference	+	2,297	2,297	1,400	111
48th Preference	+	2,297	2,297	1,400	111
49th Preference	+	2,297	2,297	1,400	111
50th Preference	+	2,297	2,297	1,400	111
51st Preference	+	2,297	2,297	1,400	111
52nd Preference	+	2,297	2,297	1,400	111
53rd Preference	+	2,297	2,297	1,400	111
54th Preference	+	2,297	2,297	1,400	111
55th Preference	+	2,297	2,297	1,400	111
56th Preference	+	2,297	2,297	1,400	111
57th Preference	+	2,297	2,297	1,400	111
58th Preference	+	2,297	2,297	1,400	111
59th Preference	+	2,297	2,297	1,400	111
60th Preference	+	2,297	2,297	1,400	111
61st Preference	+	2,297	2,297	1,400	111
62nd Preference	+	2,297	2,297	1,400	111
63rd Preference	+	2,297	2,297	1,400	111
64th Preference	+	2,297	2,297	1,400	111
65th Preference	+	2,297	2,297	1,400	111
66th Preference	+	2,297	2,297	1,400	111
67th Preference	+	2,297	2,297	1,400	111
68th Preference					

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NEW VTS-44.0: THE TRUSTS (Jul 92)		
<b>Tahara Tractor Fund Limited</b>		
Units: 440,000	55.50	---
Units: 440,000	55.50	---
<b>Templeton Global Health &amp; Biotechnology Ltd</b>		
Global Inc Jul 92	90.21	9.68
<b>The Thai Development Capital Ptd</b>		
NAV Jul 92	91.00	---
<b>The Thai-Euro Fund Ltd</b>		
Units: 100,000	52.00	---
NAV Jul 92	52.00	---
<b>The Thai Prime Fund Limited</b>		
NAV Jul 92	81.40	---
<b>The Thailand Fund</b>		
Units: 100,000	105.40	101.85
<b>The Thailand Growth Fund</b>		
NAV 10/27/92 by Jul 92	---	---
<b>The Thailand Int'l Fund Ltd</b>		
Priority Investment Fund	---	---
NAV Jul 92 Int'l Fund	55.47	+0.02
<b>The Thai Currency Funds</b>		
Thailand Cst 54 NAV Jul 92	81.00	---
Thailand Cst 70 NAV Jul 92	54.87	---
<b>Therrien Investment Management Ltd</b>		

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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Belgians under fire in ERM

THE BELGIAN and Portuguese authorities were forced to raise their official interest rates yesterday as continuing tensions inside the European exchange rate mechanism put their currencies under pressure, writes James Blitz.

The French franc had a respite inside the ERM after two days of intense speculation against the currency at the end of last week. But the currency was still close to its ERM floor against the D-Mark and the European central bank said that pressure could re-emerge after Thursday's Bundesbank council meeting.

Many dealers believe that the Bundesbank must cut its official interest rates by at least 50 basis points to alleviate tensions. The French franc closed yesterday at FF33.414 from a previous FF33.416. But at least one London based dealer said that large scale selling by international corporates and pension funds was continuing.

The main focus of interest in currency markets was on the Belgian franc which came under sharp selling pressure early in the European morning.

The Belgian currency opened at around BF20.89 to the D-Mark but soon slipped to a low of BF20.78. The Belgian franc also fell outside the 60 basis point margin which the country's central bank has imposed on the franc's parity against the D-Mark in the ERM grid.

The Belgian franc's fall forced the authorities to raise a series of official interest rates. Most importantly, the 7 day advances rate was lifted from 6.7 per cent to 8.5 per cent. This allowed the Belgian franc to appreciate to a close of BF20.73 against the D-Mark.

The other rate rise in Europe yesterday was by the Central Bank of Portugal which raised its special facility rate by 2.5 percentage points.

In part, this was a response to pressures on the escudo last week. But the Portuguese authorities will have been concerned by another sharp fall in the peseta's value yesterday, from Pta76.80 to as low as Pta70.40 at one stage. The Bundesbank will cut rates.

peseta closed at Pta70.15, but the price of this crisis is that Spain remains unable to cut interest rates as it would like.

The Danish krone closed more or less unchanged at DKr3.8945 to the D-Mark. But Mr Mark Austin, treasury economist at Midland Global Markets in London, said that a depressing sign for the Danish currency was that it had not enjoyed a post-weekend rally similar to the one experienced a week ago.

Sterling, the Italian lira and the dollar all continued to profit from the ERM crisis with all these free floaters seen as safe-haven currencies.

The British currency rose to a high of DM2.5948 against the D-Mark at one stage, its highest level since the immediate aftermath of Black Wednesday, before closing at DM2.5900.

The dollar edged up over 1/4 cent, to close at DM1.7245, bolstered by the view that the Bundesbank will cut rates.

## EMS EUROPEAN CURRENCY UNIT RATES

	Unit	Current	% Change	% Spread	Discrepancy
		Against	Central	at	Indicator
		Unit	Bank	Unit	
Dutch Guilder	1.93627	2.1988	-1.2	0.01	37
Irish Punt	0.78756	0.8726	-1.1	0.01	37
D-Mark	1.93627	2.1988	-1.2	0.01	37
Belgian Franc	20.73	20.73	0.0	0.01	37
Portuguese Escudo	200.48	200.48	0.0	0.01	37
Spanish Peseta	166.64	166.64	0.0	0.01	37
French Franc	6.55958	6.55958	0.0	0.01	37

Unit central rates set by the European Commission. Conversions are at 100:1. Discrepancy between the unit central rates and the actual market rates is shown in the last column. The maximum permitted percentage deviation of the unit central rates from the actual market rates is 0.5 per cent.

## POUND SPOT - FORWARD AGAINST THE POUND

	Unit	Current	% Change	% Spread	Discrepancy
		Against	Central	at	Indicator
		Unit	Bank	Unit	
Dutch Guilder	1.93627	2.1988	-1.2	0.01	37
Irish Punt	0.78756	0.8726	-1.1	0.01	37
D-Mark	1.93627	2.1988	-1.2	0.01	37
Belgian Franc	20.73	20.73	0.0	0.01	37
Portuguese Escudo	200.48	200.48	0.0	0.01	37
Spanish Peseta	166.64	166.64	0.0	0.01	37
French Franc	6.55958	6.55958	0.0	0.01	37

## DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

	Unit	Current	% Change	% Spread	Discrepancy
		Against	Central	at	Indicator
		Unit	Bank	Unit	
Dutch Guilder	1.93627	2.1988	-1.2	0.01	37
Irish Punt	0.78756	0.8726	-1.1	0.01	37
D-Mark	1.93627	2.1988	-1.2	0.01	37
Belgian Franc	20.73	20.73	0.0	0.01	37
Portuguese Escudo	200.48	200.48	0.0	0.01	37
Spanish Peseta	166.64	166.64	0.0	0.01	37
French Franc	6.55958	6.55958	0.0	0.01	37

## EURO-CURRENCY INTEREST RATES

	Unit	Current	% Change	% Spread	Discrepancy
		Against	Central	at	Indicator
		Unit	Bank	Unit	
Dutch Guilder	1.93627	2.1988	-1.2	0.01	37
Irish Punt	0.78756	0.8726	-1.1	0.01	37
D-Mark	1.93627	2.1988	-1.2	0.01	37
Belgian Franc	20.73	20.73	0.0	0.01	37
Portuguese Escudo	200.48	200.48	0.0	0.01	37
Spanish Peseta	166.64	166.64	0.0	0.01	37
French Franc	6.55958	6.55958	0.0	0.01	37

## EXCHANGE CROSS RATES

	Unit	Current	% Change	% Spread	Discrepancy
		Against	Central	at	Indicator
		Unit	Bank	Unit	
Dutch Guilder	1.93627	2.1988	-1.2	0.01	37
Irish Punt	0.78756	0.8726	-1.1	0.01	37
D-Mark	1.93627	2.1988	-1.2	0.01	37
Belgian Franc	20.73	20.73	0.0	0.01	37
Portuguese Escudo	200.48	200.48	0.0	0.01	37
Spanish Peseta	166.64	166.64	0.0	0.01	37
French Franc	6.55958	6.55958	0.0	0.01	37

## OTHER CURRENCIES

	Unit	Current	% Change	% Spread	Discrepancy
		Against	Central	at	Indicator
		Unit	Bank	Unit	
Dutch Guilder	1.93627	2.1988	-1.2	0.01	37
Irish Punt	0.78756	0.8726	-1.1	0.01	37
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## MONEY MARKETS

## French rates high

MONEY market interest rates throughout Europe remained on the high side yesterday as the start of another critical week inside the European exchange rate mechanism, writes James Blitz.

Pressure on the French franc subsided as dealers waited to see how the Bundesbank would respond to the latest crisis in the exchange rate mechanism at its council meeting on Thursday.

UK clearing bank base lending rate 6 per cent from January 26, 1993.

French money market interest rates were more-or-less unchanged at 9.5 per cent. But dealers in the interest rate futures market were looking for more than 2 percentage points off 3-month French francs by the middle of September, with the September Pibor contract closing yesterday at 92.57.

The clear belief is that France will reduce interest rates either because the Bundesbank has done so or because the French currency has quit the ERM.

There was speculation that the Bundesbank would reduce interest rates at its council meeting this Thursday, but there were wide differences of opinion over the extent of the cut.

Some dealers felt that the Bundesbank would have to reduce the discount rate by a full percentage point to ease pressure off the French currency. But the price of interest rate futures appeared to imply that a 50 basis point cut was in the offing.

In recent days, the September Suromark contract has gradually risen from 93.20 to a close of 93.40 last night. This implies that 3-month D-Marks would be at 6.80 per cent by mid-September - and that would imply a cut in the German discount rate, currently at 6.75 per cent, by at least 50 basis points.

Sterling interest rate markets were affected by the currency crisis yesterday, with dealers speculating that German rate cuts might allow the UK to ease policy.

In the middle of last week, the December short sterling contract hovered around the 94.20 level. Yesterday it closed at 94.39, up 6 basis points on the day. Some dealers believe that there could be a 1/4 percentage point cut in UK base rates later this year.

However, 3 month sterling cash was more or less unchanged on the day at 6 per cent. Most of a £1.65bn shortage forecast by the Bank of England was removed in the early round of discount market trading.

## FINANCIAL FUTURES AND OPTIONS

## LIFE LONG FINANCIAL FUTURES

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Dutch Guilder	1.93627	2.1988	-1.2	0.01	37
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## LIFE LONG FINANCIAL FUTURES

Dutch Guilder of 100 florins (1000 centimes) = 1.93627				
Centimes listed on NYT. Closing prices shown.				
		Unit	Current	% Change
		Against	Central	at
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		Unit	Bank	Unit
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referred to this as a requirement.

**FINANCIAL TIMES**  
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**FAR MORE THAN FINANCE.**

3



4 pm close July 28

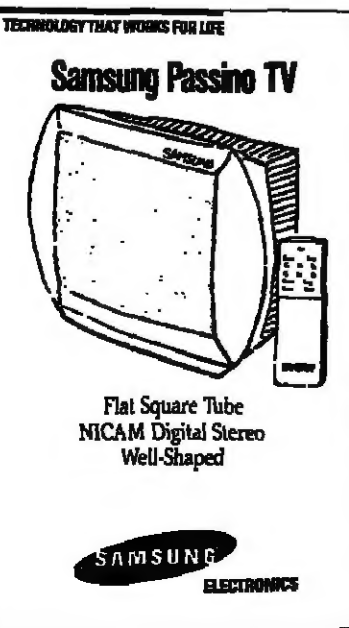
## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

**Samsung Passino TV**

Flat Square Tube  
NICAM Digital Stereo  
Well-Shaped

**SAMSUNG ELECTRONICS**

Continued on next page





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## AMERICA

US equities  
edge higher on  
economic data

## Wall Street

US STOCK markets edged into record territory yesterday as investors opened the week with a burst of buying, writes Patrick Harverson in New York.

At 1pm, the Dow Jones Industrial Average was 13,411, higher at 3,560.15. The more broadly based Standard & Poor's 500 was up 1.36 at 448.46, while the Amex composite was 0.79 firmer at 432.84, and the Nasdaq composite up 3.39 at 703.53. Trading volume on the NYSE was 132m shares by 1pm.

Stock prices opened firmer in the wake of strong overseas equity markets and an early decline in bond yields. The overseas strength came from Europe, where the main index of German stocks rose 1.3 per cent. In the US bond market, prices rose at the start of trading, pushing the yield below 6.7 per cent.

Although bonds later lost their early ground, equities did not follow suit. Stocks were aided by some good economic news in the form of a 1.9 per cent jump in June existing home sales. By mid-morning the Dow had broken through its previous record of 3,558.40, set just last week, and was showing a 30-point gain.

Prices eased back later in the morning, however, and analysts voiced concern that the markets would struggle to hold their new record levels. In recent weeks, every time stocks have reached new highs, selling has quickly dragged prices lower, and analysts fear a similar pattern could be repeated this week, especially if the big forthcoming economic news - durable goods orders and second quarter gross domestic product - prove bearish.

Among individual stocks, second quarter earnings reports continued to dominate. Boeing rose 1 1/2 to 33 3/4 in

heavy trading after the aircraft manufacturer posted stronger than expected earnings of \$426m. Investors shrugged off warnings from Boeing about its near-term business prospects.

IBM traded lower ahead of today's expected unveiling of its second quarter results. The stock fell 1/2 to \$41 1/2 in volume of 1.7m shares as analysts and investors continued to speculate that the troubled computer group will announce a fresh charge against earnings, further job cuts, and possibly a reduced dividend payout.

Cummins Engine, the world's biggest independent manufacturer of diesel engines, tumbled 5 1/2 to \$33 1/2 on news of lower-than-expected second quarter earnings.

Mobil firmed 1/4 to \$71 1/4 after broker house Dean Witter raised its 1993 earnings estimate for the oil company following its strong second quarter results.

On the Nasdaq market, Reuters ADRs climbed 1 1/2 to \$64 1/2 after the UK-based financial information group announced plans to buy back up to 5.5 per cent of its shares.

US Healthcare jumped 3/4 to \$32 following an improvement in second quarter profits to 82 cents a share, up from 43 cents a share a year ago.

**Canada**  
TORONTO bounced back after the market's recent correction, driven by recovering precious metals issues and firmer forestry stocks. The TSE-300 index rose 31.41 by lunchtime to 3,851.6.

**SOUTH AFRICA**  
INDUSTRIAL shares declined in reaction to weekend rioting in the townships, but the overall index shed 13 to 3,986. De Beers advanced 35 cents to R80.35 and Vaal Reef gained R4 at R338.

## EUROPE

## DAX closes at highest level since August 1990

WITH pressure on the French franc subsiding yesterday attention remained fixed on Thursday's crucial Buba meeting, writes Our Markets Staff.

FRANKFURT was lifted by a growing conviction among certain sections of traders that the Bundesbank will cut interest rates at Thursday's council meeting. The DAX index gained 23.69 or 1.3 per cent to 1,854.52, its highest level since August 2, 1990.

Some analysts noted that given that some of the market's strength has been coming from second and third line issues a period of consolidation may be approaching.

In spite of the widespread rate cut optimism there is a conflicting view among some analysts that recent poor economic data - with more expected during the week - leaves the Bundesbank no alternative but to leave rates alone until its return from the summer recess.

As Nikkei Europe comments in a newsletter released on Friday, "the money supply figures showing M3 up 7.1 per cent and

this week's inflation figures, expected to show a year-on-year increase from 4.2 per cent to 4.4 per cent, further emphasise that, on domestic grounds, an interest rate cut on Thursday cannot be justified".

Earlier yesterday some published West German regional CPI figures came in much as expected.

Via continued to appreciate following Friday's late news that it could take a majority stake in Bayernwerk at what is considered to be a "bargain price". The shares gained DM35.00 or 8.5 per cent to DM445.50.

Scherer was another stock on the move, up 1.8 per cent on the day, after the US authorities gave approval for its multiple sclerosis drug. The shares rose DM15.50 to DM890.00.

PARIS breached the 2,000 level as had been expected, having come close towards the end of last week on optimism over the SMI index rose 38.3 or 1.6 per cent to 2,388.3.

Nestlé, actively traded, rose SF7 to SF1,033, while among the banks, UBS bearers rose

## FT-SE Actuaries Share Indices

THE EUROPEAN SERIES										
Hourly changes	Open	10.30	11.00	12.00	12.00	14.00	15.00	Close	High	Low
FT-SE 100	1236.02	1236.02	1237.16	1238.19	1238.64	1239.83	1239.12	1240.21	1240.21	1236.02
FT-SE 250	1291.57	1294.04	1293.61	1295.56	1295.25	1293.62	1294.82	1294.81	1295.56	1291.57
July 26										
FT-SE 100	1234.42	1217.14	1212.75	1224.25	1224.25	1235.43	1235.43	1235.43	1235.43	1234.42
FT-SE 250	1278.96	1275.83	1286.97	1275.46	1275.46	1283.54	1283.54	1283.54	1283.54	1278.96
New value 1000 2000 3000 4000 5000 6000 7000 8000 9000 10000										

Paribas was one of the day's most active issues, advancing to a day and year's high of FF465 before slipping back slightly to close at FF433.30 at FF453.20. Traders could cite no specific reason for the gain.

LVMH lost FF55 to FF3,990, but off the day's low of FF3,970, after disappointing first half figures.

ZURICH gained support from a firm dollar and expectations of good half-yearly results from the banks during the current reporting season and the SMI index rose 38.3 or 1.6 per cent to 2,388.3.

Nestlé, actively traded, rose SF7 to SF1,033, while among the banks, UBS bearers rose

Montedison, the most heavily traded stock, fell L24.3 to L678 ahead of today's meeting of creditors.

BRUSSELS finished flat after some late index related selling erased modest gains as currency concerns, high short-term interest rates and worries about budget talks weighed on the market. The Bel-30 index edged 0.15 higher at 1,307.18.

GIB, the retailer, representing almost one-seventh of the market's BFR940m turnover, dipped BFR10 to BFR1,256. Clabeu, the steel stock, rose BFR110 or 15.9 per cent to BFR800 after Friday's 16.9 per cent surge.

AMSTERDAM's CBS Tendency index gained 1.3 to 119.2 helped by good rises in index heavyweights, Royal Dutch, up FI 1.90 to FI 160.30 and Unilever, up FI 1.20 to FI 158.90.

STOCKHOLM rose on optimism over lower interest rates in the near future which spilled over into the banking sector. The ÅRSVÄRDE index rose 16.7 or 1.4 per cent to 1,171.2.

VIENNA advanced 3.7 per cent to just below its 1993 peak, prompting expectations that the 19-share index could breach the 1,000-level this week, in the absence of profit-taking. The ATX index finished 25.52 ahead at 982.42.

ISTANBUL fell almost 4 per cent amid heavy selling in the absence of fresh news to brighten the mood. The composite index shed 388.96 to 9,370.30, after last week's 8.08 per cent decline.

Carnegie International notes that the beginning of the first half results season is beginning to produce reasonable outperformance in individual stocks; but with money continuing to tighten and no good news appearing on the political or economic front, the basic direction of the index is likely to remain downward.

TEL AVIV recouped early losses to close strongly ahead as the market reacted to a 2.1 per cent devaluation of the shekel against the dollar. The Mishnam index gained 2.95 or 1.6 per cent to 186.14, in turnover of Shik188m.

## ASIA PACIFIC

## Hong Kong gains 1.6% after listing of China stock

## Tokyo

BUYING by public funds and investment trusts absorbed arbitrage-related selling and the Nikkei average edged higher while most investors remained on the sidelines because of mounting political and economic uncertainty, writes Emiko Terazono in Tokyo.

The 225-issue index rose 87.51 to 19,832.08, failing to recoup Friday's 1.9 per cent loss, having fluctuated between a day's low of 19,707.97 and high of 19,838.68 on index-linked trade.

Volume shrank to 170m shares from 188m. The Topix index of all first section stocks put on 6.32 at 1,515.55, but declined led advances by 493 to 406, with 232 issues unchanged. In London the FTSE100 index was 0.58 firmer at 1,288.54.

Investors are wary over the

likelihood of a non-LDP coalition forming the new government, given that two splinter groups are poised to join the coalition to be formed among the five opposition parties.

Further weak economic figures also weighed on sentiment. Department store sales for June fell 8.9 per cent from the previous year's, while the Bank of Japan said bank savings by retail customers were rising, reflecting consumer trends to save rather than spend.

Mr Geoffrey Barker, an economist at Baring Securities in Tokyo, observed that since a recovery in consumer spending depended heavily on the willingness of households to run down their savings, lower interest rates, falling inflation and the return of buyers to the housing market were providing a backdrop for a rise in confidence.

Hopes of lower interest rates supported banks. The bond market moved on similar speculation, with the yield on the No 145 10-year benchmark falling 3.5 basis points to 4.185 per cent. Industrial Bank of Japan rose Y30 to Y3,120 and Sakura Bank gained Y30 at Y1,630.

Suzuki Motor weakened Y6 to Y926 on reports that Volkswagen, of Germany, was likely to withdraw from a mini-car production venture in Spain.

Persistent fears that a bribery scandal could hurt leading construction companies also affected sentiment. Hazama, already implicated in three cases of bribery to politicians, dipped Y4 to Y431. Tobishima fell Y13 to Y438 and Nishimatsu Construction retreated Y4 to Y918.

Speculative favourites saw profit-taking. Nikkatsu, the day's most active issue, slipped Y1 to Y18 and Gajon Kanko shed Y18 to Y135.

In Osaka, the OSE average edged ahead 6.71 to 21,842.35 in volume of 5.6m shares.

## Roundup

THE region experienced mixed fortunes yesterday.

HONG KONG rose sharply as selling by overseas funds eased. The Hang Seng index put on 107.75, or 1.6 per cent, to 6,838.08 in HK\$2.52bn turnover.

Brokers noted that nearly 10 per cent of the total volume was due to China's state-owned Shanghai Petrochemical, which began trading yesterday. The shares topped the active list, ending at HK\$1.61, against the offer price of HK\$1.55.

Property issues rebounded from last week's falls: Henderson Land climbed 80 cents to HK\$20.40 and Cheung Kong rose 40 cents to HK\$24.90.

TAIWAN built on Friday's 2.4 per cent rise, the weighted index ending 53.45 stronger at 4,088.67 after an intra-day high

of 4,083.74. Turnover amounted to T\$19.65bn.

Paper and construction shares were firmer, with China Steel up 60 cents to T\$90.10.

SEOUL edged higher as buyers concentrated on small and medium-sized companies. The composite index appreciated 3.24 to 745.07.

MANILA lost ground, the composite index closing 11.68 down at 1,704.10. Manila Electric "B" shares rose 5 pesos to 237 pesos while Philippine Long Distance Telephone shed 25 pesos to 1,070 pesos.

SINGAPORE's Straits Times Industrial index initially fell 17 points on profit-taking before ending a net 11.46 off at 1,811.62.

Sembawang Shipyard, which is expected to report interim earnings this week, fell 20 cents to S\$11.70.

KUALA LUMPUR declined from the day's high following a rumour about the health of

China's paramount leader. The composite index was finally just 0.70 up at 758.35, after touching 761.50.

AUSTRALIA reversed down through the 1,800 level ahead of inflation and balance of payments data due this week.

The All Ordinaries index closed 11.1 easier at 1,756.7 in turnover of A\$284.1m. Among the banks, National Australia relinquished 8 cents to A\$10.28 and Commonwealth 6 cents to A\$8.88.

NEW ZEALAND finished slightly higher after trading in a narrow band on low turnover. The NZSE-40 capital index gained 1.82 at 1,725.29 in turnover of NZ\$22.8m.

Fletcher Challenge eased 4 cents to NZ\$2.84 and Telecom firmed a cent to NZ\$3.30.

KARACHI continued to climb on settlement day after recording its biggest one-day gain on Sunday. The KSE index added 20.04 at 1,418.62.

## ERM tensions cast shadow in Europe

## MARKETS IN PERSPECTIVE

	% change in local currency			% change in US \$		
	1 Week	4 Weeks	1 Year	Start of 1992	Start of 1993	Start of 1994
Austria	+4.82	+8.14	+17.38	+19.81	+13.61	+12.33
Belgium	+1.46	+4.16	+16.55	+18.51	+11.84	+10.68
Denmark	+1.39	+0.35	+2.92	+19.79	+13.63	+12.35
Finland	+0.46	+14.07	+67.96	+53.64	+38.62	+37.08
France	+1.00	+2.26	+15.74	+9.96	+4.82	+3.44
Germany	+0.94	+7.63	+10.60	+18.23	+12.96	+11.38
Ireland	+1.10	+2.90	+14.75	+25.25	+17.42	+16.23
Italy	+0.81	+5.19	+14.47	+35.26	+25.67	+24.26
Netherlands	+0.19	+1.37	+18.89	+16.16	+10.57	+9.33
Norway	+2.00	+5.55	+19.22	+20.73	+15.11	+13.82
Spain	+0.73	+0.27	+24.80	+21.71	+2.89	+1.73
Sweden	+0.21	+6.79	+38.68	+18.93	+3.54	+2.37
Switzerland	+1.84	+0.12	+51.52	+14.85	+12.14	+10.69
UK	+0.15	+1.50	+20.65	+1.06	+1.08	+0.06
EUROPE	+0.02	+1.35	+21.02	+10.42	+6.59	+5.73
Australia	+0.48	+5.84	+7.69	+18.07	+12.70	+11.48
Hong Kong	+2.85	+4.29	+22.70	+23.00	+22.50	+22.50
Japan	+2.92	+1.76	+32.32	+21.91	+44.73	+42.51
Malaysia	+4.45	+7.49	+45.37	+29.89	+33.88	+32.38
New Zealand	+0.76	+3.47	+11.79	+13.86	+23.17	+21.80
Singapore	+3.18	+3.56	+22.88	+17.53	+20.51	+19.18
Canada	+2.13	+5.98	+3.70	+6.90	+7.40	+6.19
USA	+0.24	+0.04	+8.03	+2.73	+3.90	+2.73
Mexico	+2.26	+2.61	+5.97	+7.94	+6.92	+7.97
South Africa	+2.52	+1.12	+17.83	+27.73	+39.68	+38.11
WORLD INDEX	+0.82	+0.82	+17.99	+10.59	+15.85	+14.39

Based on July 26/27 1993. Copyright, The Financial Times Limited, Goldman Sachs & Co. and NatWest Securities Limited.

## By Michael Morgan

Tensions within the exchange rate mechanism overhung many European bourses last week, and the pressure seems likely to be undiminished, at least until Thursday's Bundesbank council meeting.

The FT-Actuaries World Index dipped by 0.5 per cent in local currency terms, with the Pacific Basin showing the weakest performance and Europe flat.

Mr David Roche of Morgan Stanley sees two likely options for resolution of ERM problems: rate cuts within the ERM or suspension of the ERM and lower rates.

In his latest review, Mr Roche says: "The most elegant solution... would be a German rate cut combined with a widening of current ERM bands, perhaps to 6 per cent, prior to the Bundesbank's summer recess."

However, during the current ERM turmoil, he expects rising interest rates to depress the French equity market, particularly the financial stocks.

Germany will outperform most other European markets; Italy may have a temporary correction; while Spanish equities will remain vulnerable.

Elsewhere in Europe, Austria went its own way last week, the market advancing 4.8 per cent.

Kleinwort Benson notes that the recent strong rise has followed a pattern seen elsewhere in Europe, notably in Germany. "Hopes of economic recovery have encouraged the buying of export and cyclical stocks," says its monthly review. "In Austria, the rally has been led by the paper, refractory and chemical sectors. Falling interest rates have helped because of the high levels of gearing in many of the companies."

However, Kleinwort warns that although the economy will be helped by tax reform in 1994, high public borrowing and sluggishness in the German economy could retard Austria's economic recovery, and therefore the equity market may have rallied a little too soon.

Thanks for the  
vote of confidence.

LIFFE's Three Month ECU

LIFFE's ECU Designated  
Market Makers

We've received two big ticks from investors over the last year.

The first is for the Three Month ECU futures contract itself. In the twelve months to June 1993, open interest is up 187% and volume 165%.

LIFFE's designated market maker scheme for the Three Month ECU contract has also worked very well, and has been one of the major reasons for this spectacular growth, together with LIFFE members' growing

involvement in the contract.

The six major institutions, listed below ensure liquidity on request as designated market makers, and have renewed - indeed strengthened - that commitment.

For further details on the ECU contract, the designated market maker scheme, the new commitment and a list of members who actively broke the contract, please contact LIFFE's Business Development Department.

First Chicago Futures Inc  
(acting on behalf of First National Bank of Chicago)  
Istituto Bancario San Paolo di Torino S.p.A.  
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(acting on behalf of National Westminster Bank Plc)  
UBS Futures & Options Limited  
(acting on behalf of Union Bank of Switzerland)

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